United States Court of Appeals

for the Second Circuit

APPENDIX

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3754

DATE May 4, 1971

FROM A.J. LUSK, AVP TO FILE

SUBJECT: TOPPER CORPORATION

Jack Rose advised that the proceeds of the public issue, approximately $6.2MM (net) will be made available to them on Thursday (5/6).

He proposes to clear that check through the Topper account at Manufacturers Hanover and the latter will credit us with Fed. Funds on Friday (5/7). On the basis of Fed. Funds, I told him we would give him immediate credit.

A.J. Lusk,
Assistant Vice President

AJL:ad
cc: Tim Madden, A.C.
Charles Brown, A.V.P.

FINANCE ROUTING
DUHN
BOLGMAN
LUSK
FISCHER
A/C EXEC. MSIEGEL
READING FILE
CONTRACT FILE

E. WALDMAN

Tim Madden FYI.

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3755

DATE July 16, 1970

FROM M. J. Siegel AVP TO Contract File

SUBJECT: Topper Corporation

Mr. David Downs was in our office on Wed. 7/15/70 and advised that Manufacturers Hanover had established a $5MM letter of credit and acceptance line which is separate and apart from their participation with us. (Manufacturers has approximately 800M in cash collateral.)

Acceptances are to be for a duration of 30 days. According to Mr. Downs, acceptances will be granted only for Ocean Cargo and not Air Cargo which still leaves approximately one week to ten days for client to pay before goods arrive. Manufacturers will not release documents to client until paid, except in the case of goods arriving on the west coast for rail shipment to New Jersey. But in any case these too, will be paid before goods arrive in New Jersey. According to Mr. Downs this should give client between $1,000,000 and $1,500,000 in extra credit for 30 days.

Mr. Levie is preparing an agreement between client, Manufacturers Hanover and ourselves which should cover rights to inventories under acceptances, co-mingled inventories in case of pre-delivery if drafts are not paid and a release to client to create this liability under acceptances which is contrary to our original loan agreement.

Morton J. Siegel
Assistant Vice President

FINANCE ROUTING

DUNN
HOLZMAN
LUSK
FISCHER
A/C EXEC.
READING FILE
CONTRACT FILE

E.W. 7/17

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3756

DATE July 27, 1970

FROM Morton J. Siegel, A.V.P. TO Contract File

SUBJECT: Topper Corporation

Messrs. Waldman, Folzman, Siegel and Stamplenan met with Messrs. Orenstein, Downs and Rose of Topper Corporation at their Showroom on 23rd Street. The purpose of this meeting was to preview their new toy line for next year and to receive and review their revised cash projection.

Mr. Orenstein presented the new line which will concentrate more on non seasonal items and low cost merchandise.

In reviewing cash projections for July thru January, client is projecting a greater need for non receivable loans from July thru October with peak loan requirements in October and November, of $19,404,000. which is approximately $900M over our present loan limit. Their projections did not take into consideration, however, a new development with their letter of credit transactions whereby Manufacturers Hanover will extend acceptances on a 30 day basis. This should peak in September at about $1MM which could reduce line requirements back to previous requests of $18,500,000. or less.

The additional cash requirements according to client are that they did not receive monies from stock issue as anticipated and collections due to additional datings have not come in as projected.

Recommendations:

I feel the client is understating their reserves and ineligibles which would not generate the availability as projected. Furthermore, an increase in their line due to non receivable collateral is not justified due to a decrease in anticipated sales and profits. Not knowing whether or not client will need additional line (due to 30 day acceptances) suggest they make every effort to speed collections. However, if reasonable non receivable loans are requested,(10% of gross receivables) consideration may be given to these requests, providing same does not exceed our present line.

Morton J. Siegel
Assistant Vice President

MJS/ec

CBX 112

A 3[illegible]7

TOPPER CORPORATION

(000 Omitted)

	Original Projection	Revised Projection	Increase (decrease)
Month End Cash Requirements			
July	16362	18324	1962
Non Receivable portion	2350	2924	574
August	16509	19119	2610
Non Receivable	1000	2514	1514
September	16805	19388	2583
Non Receivable	-0-	1398	1398
October	18464	19404	940
Non Receivable	-0-	-0-	----
November	18365	19404	1039
Non Receivable	-0-	-0-	----
December	15749	16364	597
Non Receivable	-0-	-0-	----
January	-0-	-0-	----
Year Projections Consolidated:			
Sales	75000	72000	(3000)
Cost of Sales	41000	42249	791
Expenses	25977	24622	(1355)
Net Profit (after taxes)	2867	1676	(1191)

FINANCE ROUTING

DUNN
HOLZMAN
LUSK
FISCHER
A/C EXEC.
READING FILE
CONTRACT FILE

HF 38 Rev. 1-68

A 3758

REVISED
~~XXXX~~ ACCOUNT MEMORANDUM

Date: _____

ABC CODE # _____

Name: TOPPER CORPORATION

Address: 107 TRUMBULL STREET, ELIZABETH, NEW JERSEY

Business: TOY MANUFACTURER

Account No. 667 Code No. 217 Industry No.
Overflow 664 336
Type of Agreement: FINANCE

Line of Credit: (our share) Amount: $6,720,000. Expiration: 3/31/72
Of total line of $16,000,000.

Method of Handling: BULK CONTROL

Advances: 80% Equity: 20% Discount Reserve: --

Finance Division Account:

Past Dues: 60 Days Past Due Date

Ineligible: Contras, Subsidiaries, Affiliates, Foreign. Invoices with Terms of sale in excess of 120 Days.

Assignments: At least once Weekly

Remittances: In Kind Collection Period: 3 Days

Field Audit: 90 Days

Requirements from Client: Aging & Statements in detail Monthly.

Collateral Reconciliation Requirements:

Rate of Charges: 2.97% over FNCB Best (Floor 9% per annum) 2.% per annum on $7,000,000. FMCC Service Payable monthly or part thereof, First Reduction due 3/31/75 of $875,000. & quarterly thereafter.

CBX 120

A 3759

FACTORING DIVISION ACCOUNT:

Check processing:

Overdues allow Days

Allow discount deducted up to days after discount date.

Discount and anticipation Not deducted - absorb

Debit client overdue Interest on non-guaranteed items

Discrepancy notices to Client

Charge clients deductions up to $_____

Merchandise Advances: -0-

Consignments: Daily of F.G. (net) Quarterly Raw Material Report
Yearly Physical Inventory as of 12/31

Releases: (None)

Collateral Department:

Insurance: In Effect

Special Instructions:

IMPORTANT: Reduce Eligibility by $7,000,000. to Reserve that portion of available collateral for FMCC.
Under other collateral

4/2/71

A 3760

February 2, 1972

Memorandum
Prepared at the request of, and for, Winthrop, Stimson, Putnam and Roberts.

Topper Corporation

(Conversations with Al Bott of Arthur Young, and Henry Orenstein, and Jack Rose of Topper Corp.)

Henry Orenstein called Al Bott previously and cleared it for me to talk to Arthur Young. Mr. Bott denied that his firm had been at Topper's this summer, and said that the last intensive work prior to December 1971 had been on the company's audit in connection with the 1970 annual report. This was concluded in February 1971. In connection with the April Prospectus, his firm looked over the March financial statements of Topper and said that there was nothing unusual or negative in them, but this did not involve any detailed work. Mr. Bott has a letter of December 27, 1971 relating to Topper's return policy which he read to me. He said that the company's policy with regard to returns was that it normally made small year-end adjustments after the Christmas Season, but that these were never material in amount. Prior to the disaster, he had no written policy from Topper with regard to returns.

I asked him about the legitimacy of sales and he said that his firm had asked Topper on many occasions whether there were any return obligations and that the answer was always "no". Interestingly, in connection with the shipment of goods from the Far East, he said that White & Case had given an opinion, stating that Topper's sales of these items were final. Mr. Bott recognizes the dilemma of reconciling the finality of sales with return policy in view of last year's heavy returns but was unable to reconcile this. In his opinion, Topper's problem is that it completely misjudged the market for its toys last year and overstocked distributors. He claims that Arthur Young had no prior knowledge of this and in fact was not active in working with the company since last Spring. Moreover, he used the word "never" on three occasions in saying that his firm had not spoken to any of the bank group and specifically had not spoken to FNCB. I spoke to Jack Rose this morning and he brought up the subject of his October 1971 stock sales. He said that prior to this transaction that Mr. Orenstein had placed considerable pressure on him during the summer months to sell enough stock to pay for bank loans guaranteed by Topper. He felt he could not do this prior to our closing without adversely affecting the price of Topper's shares and this was the reason for the sale at about $14-$15 the first week in October. He indicated that he still, at that time, had about $31,000 borrowed from FNCB and that the Vice President of the Bank - not Waldman - had sold him out of these shares without informing him. He believes that this makes him look very poor and actually indicated that he would prefer to have that loan outstanding to establish credibility that he was not acting on inside information, and is an honest person.

I told Rose that I recalled Orenstein's bringing up the subject of whether anyone in the company should have as much stock on margin as Rose in my first visit to the company in August. This was in the car, driving from the company's plant to its ad agency, and Rose was not present then. I remember telling Orenstein that it seemed only sound business for someone to take back their bait in any speculative situation, if they have a continuing substantial interest in it.

Later in the morning, I spoke to Henry Orenstein and he indicated that Gabriel Industries, which makes chemical sets and erector sets, was considering merging with Topper. Gabriel is listed on the American Exchange and had a profit last year. Orenstein believes

CRV 121

that a combination of its sales force and Topper's product line would be beneficial. These discussions were initiated by Ross Saypool who used to be a Topper Director and is, I believe, associated with Lionel Corp., which has a tie-in with Gabriel Industries.

Mr. Rose, this morning, also told me that Henry Clark had called him last night, to indicate that the banks objected to the $1.4 million payment to the noteholders and in addition wanted $500,000 of additional money used to pay them down. They are still discussing this amount among themselves and Mr. Rose informed me that the company still has not received any funds from the banks this week.

Henry L. Thompson

A 3762

CITICORP

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

STATEMENT

JANUARY 31, 1975

6667 TOPPER CORPORATION
107 TRUMBULL ST
ELIZABETH N J 07206

DATE		DEBITS AMOUNT	CREDITS AMOUNT	BALANCE
12.31	DEBIT BALANCE	10,906,689.70		
01 31	TOTAL	10,906,689.70		
01 31	DEBIT BALANCE			10,906,689.7
01 31	COLLATERAL ACCOUNTS RECEIVABLE BALANCE OF .80CR			

This account shall be deemed accepted as correct by you, unless notice to the contrary is received within 30 days

E & OE

JANUARY 31, 1975 DEBIT BALANCE OF $ 10,906,689.70
COLLATERAL ACCOUNTS RECEIVABLE BALANCE OF .80

PLEASE SIGN AND RETURN THIS STUB TO FIRST NATIONAL CITY BANK

BALANCE(S) LISTED ABOVE IS (ARE) CORRECT AS RENDERED
TOPPER CORPORATION

AUTHORIZED SIGNATURE

CBY 129

FIRST NATIONAL CITY BANK

HUDSHIMAN FACTORS DEPARTMENT

STATEMENT

A 3763

DE LUXE TOPPER CORP

DATE 31 OCT.

DATE		DEBITS AMOUNT	CREDITS AMOUNT	BALANCE
OC 31	CREDIT BALANCE	8,47[illegible].32		
11 01	CHK RET	10.00		
11 04	CK 1110		999,152.24	
11 04	CK 1109		229,130.30	
11 05	WIRE	300,000.00		
11 05	CHK RET	15.75		
11 05	CK 1110		131,729.19	
11 06	CK		15.75	
11 06	WIRE	300,000.00		
11 06	CHK RET	.75		
11 06	CK 1111		135,460.65	
11 07	WIRE	150,000.00		
11 07	CHK RET	31.21		
11 07	CHK RET	13.99		
11 07	CK 1112		254,954.72	
11 [illegible]	CK 1113		379,033.95	
11 11	WIRE	500,000.00		
11 12	CK 1114		423,264.57	
11 12	CK 1115		398,980.28	
11 13	WIRE	275,000.00		
11 13	CK 1116		373,103.24	
11 14	WIRE	150,000.00		
11 14	CK 1117		540,554.79	
11 [illegible]	CHK RET	1.00		
11 [illegible]	WIRE	100,000.00		
11 [illegible]	CK 1118		637,799.77	
11 18	CK 1119		932,874.97	
11 18	WIRE	150,000.00		
11 18	CHECK	250,000.00		
11 18	CK 1120		551,708.61	
11 20	WIRE	150,000.00		
11 20	CK 1121		873,010.42	
11 21	WIRE	150,000.00		
11 21	CK 1122		948,999.99	

This account shall be deemed accepted as correct by you, unless notice to the contrary is received within 30 days.

E. & O. E.

BALANCE OF $

BALANCES LISTED ABOVE, ARE CORRECT AS RENDERED

PLEASE SIGN AND RETURN THIS STUB TO FIRST NATIONAL CITY BANK

OBX 130

A 3764

FIRST NATIONAL CITY BANK

HUBSHMAN FACTORS DEPARTMENT

STATEMENT

[illegible] DUAL TOWER CORP

JAN. 31,19[illegible]

DATE		DEBITS AMOUNT	CREDITS AMOUNT	BALANCE
01 21	[illegible]		152,640.29	
01 21	[illegible] 1122		54,223.53	
01 22	WIRE	250,000.00		
01 22	[illegible] 1123		867,824.01	
01 22	[illegible]	350,000.00		
01 22	[illegible]	2.25		
01 25	CHK RET		421,491.98	
01 25	[illegible] 1124		999,999.99	
01 25	[illegible] 1124		40,000.00	
01 25	[illegible]	300,000.00		
01 25	WIRE		20,954.99	
01 26	[illegible] 1126		500,000.00	
01 26	[illegible]	250,000.00		
01 27	WIRE		103,274.15	
01 27	[illegible] 1127		9.61	
01 27	[illegible]	.50		
01 28	CHK RET	1.50		
01 28	CHK RET	350,000.00		
01 28	WIRE	4,401.53		
01 28	CHK RET		140,322.92	
01 28	[illegible] 1128	425,000.00		
01 29	WIRE		33,665.90	
01 29	[illegible] 1129	110,890.80		
01 31	FINANCE CHARGES			
01 31	TOTAL	13,016,913.74	11,910,916.60	
01 31	DEBIT BALANCE			1,105,997.14

This account shall be deemed accepted as correct by you, unless notice to the contrary is received within 30 days.

E. & O. E.

JAN. 31,1971 DEBIT BALANCE OF $ 1,105,997.14

BALANCES LISTED ABOVE, ARE CORRECT AS RENDERED

ACCOUNTING DIVISION

REFERRING TO MONTHLY ACCOUNTING FOR MONTH ENDING: 1-31-71

AGENT: A 3765

ACTORS

DE-LUXE TOPPER

DATE	ASSIGN. SHEET	SALES	DISCOUNT DISTRIBUTION				INITIALS
7 L	1075 / 1	553495 41 / 24354 3	710 / 711	601707 40 / 120	1124 / —	1185104 42 / 3	
		23422 2		7053	1126	12 227	
		12174 11				1217	
		10624 12			1127	9	
7 4		137182 61	7111	309 34		122 75	
		367807 39		1015315 85	1128	151	
		700 11			1129	1241 35 37 / 341	
						1245	
TOTALS							

UNT DISTRIBUTION

CLIENT NO: 1.6.1

CLIENT NAME: DE-LUXE TOPPER

AGENT: A 3766

FACTORS:

DISCOUNT DISTRIBUTION

ASSIGN. SHEET	SALES								INITIALS
		694				1107			
		695		25777	42	1103			
						1109			
							1		
		696		6792	49	1110			
				32569	91		1		
		697		9569	66	1111			
				11130	55		1		
		698		7152	72	1112			
				42283	25		1		
		699		3514	-	1113			
				51797	28		2		
						1114			
							2		
		700-701		13114	00	1115			
				12244	14		1		
		702/1070		15424	07	1116			
			1	98372	75		3		
		703/1071		44251	51	1117			
			2	02803	27		4		
		704		29526	75	1118			
			2	32335	02		5		
		705		8865	55	1119	1		
			3	41201	10				
						1120			
		706-707		1221	32	1121			
			2	47125	33				
						1122			
		708-709					4		
		1071		340738	95	1123			
				587864	25		1		
		710		13243	11	1124			
				61701			1		

FIRST NATIONAL CITY BANK
FACTOR & COMMERCIAL FINANCE DEPARTMENT

DE LUXE TOPPER CORP — FINANCE CHARGES — JANUARY 31, 1971

ATE DAY	DAILY BALANCE
C1	17,818,904.82
02	17,495,044.55
03	16,495,862.33
04	16,495,872.33
05	16,795,872.33
06	17,095,873.08
07	17,016,781.74
08	16,885,053.55
09	16,749,652.90
10	16,494,698.18
11	16,415,664.83
12	16,415,664.83
13	16,690,664.83
14	16,415,400.26
15	16,118,421.00
16	15,545,315.76
17	14,998,761.00
18	14,310,965.23

A 3767

FIRST NATIONAL CITY BANK
FACTOR & COMMERCIAL FINANCE DEPARTMENT

DE LUXE TOPPER CORP — FINANCE CHARGES — JANUARY

DATE OF DAY	DAILY BALANCE		
	14,710,965.23		
1.19	14,860,965.23		
1.20	13,865,645.37		
1.21	13,163,936.76		
1.22	12,290,925.84		
1.23	11,236,702.32		
1.24	10,676,879.76		
1.25	10,978,879.76		
1.26	11,228,879.76		
1.27	10,162,351.42		
1.28	10,266,396.43		
1.29	10,163,112.67		
1.30	10,022,790.05		
1.31			
		1/37.0370	27,593.33 FINANCE CHARG
		1/38.0147	35,008.45 FINANCE CHARG
		1/39.0455	26,740.86 FINANCE CHARG
		1/40.0000	27,548.21 FINANCE CHARG
			116,990.85 FINANCE CHARG

EFFECTIVE JAN. 07,1971 FINANCE CHARGES HAVE BEEN CALCULATED AT
EFFECTIVE JAN. 15,1971 FINANCE CHARGES HAVE BEEN CALCULATED AT
EFFECTIVE JAN. 22,1971 FINANCE CHARGES HAVE BEEN CALCULATED AT
IN ACCORDANCE WITH OUR CONTRACT.

3768

FIRST NATIONAL CITY BANK
FACTOR & COMMERCIAL FINANCE DEPARTMENT

0667 DE LUXE TOPPER CORP — FINANCE CHARGES — JANUARY 31, 1971

DATE MO.DAY	ENTRY DESCRIPTION		DEBIT ENTRY	CREDIT ENTRY	DAILY BALANCE
01.18					14,310,965.23
01.19	WIRE		150,000.00		
01.19	CHECK		250,000.00		
01.19					14,710,965.23
01.20	WIRE		150,000.00		
01.20					14,860,965.23
01.21	WIRE		150,000.00		
01.21	RR	1119		992,679.57	
01.21	RR			152,640.29	
01.21					13,865,645.37
01.22	WIRE		250,000.00		
01.22	RR	1120		951,708.61	
01.22					13,163,936.76
01.23	RR	1121		873,010.92	
01.23					12,290,925.84
01.24	RR	1122		54,223.53	
01.24	RR	1122		999,999.99	
01.24					11,236,702.32
01.25	CHK RET		2.25		
01.25	WIRE		350,000.00		
01.25	RR	1123		867,824.81	
01.25	RR			40,000.00	
01.25					10,678,879.76
01.25	WIRE		300,000.00		
01.26					10,978,879.76
01.27	WIRE		250,000.00		
01.27					11,228,879.76
01.28	CHK RET		1.50		
01.28	CHK RET		0.50		
01.28	CHK RET		4,901.63		
01.28	WIRE		350,000.00		
01.28	RR	1124		999,999.99	
01.28	RR	1124		421,431.98	
01.28					10,162,351.42
01.29	WIRE		425,000.00		
01.29	RR			300,000.00	
01.29	RR	1126		20,954.99	
01.29					10,266,396.43
01.30	RR			9.61	
01.30	RR	1127		103,274.15	
01.30					10,163,112.67
01.31	RR	1128		140,322.62	
01.31					10,022,790.05
			22,729,687.16	12,706,897.11	10,022,790.05

FUTURE TOTAL 33,695.96CR
PRIOR TOTAL 829,564.27CR
LEDGER BALANCE 10,818,769.36

EFFECTIVE JAN. 07,1971	FINANCE CHARGES HAVE BEEN CALCULATED AT	1/37.0370	27,593.33	TOTAL OF DAILY BAL. 102,197,429.44
EFFECTIVE JAN. 15,1971	FINANCE CHARGES HAVE BEEN CALCULATED AT	1/38.0147	35,008.45	TOTAL OF DAILY BAL. 133,083,591.12
EFFECTIVE JAN. 22,1971	FINANCE CHARGES HAVE BEEN CALCULATED AT	1/39.0455	26,740.86	TOTAL OF DAILY BAL. 104,411,038.82
		1/40.0000	27,548.21	TOTAL OF DAILY BAL. 110,192,954.77
			116,890.85	TOTAL FIN.CHARGE ON 449,884,904.15

A 3769

FIRST NATIONAL CITY BANK
FACTOR & COMMERCIAL FINANCE DEPARTMENT

0667 DE LUXE TOPPER CORP — FINANCE CHARGES — JANUARY 31, 1971

DATE MO.DAY	ENTRY DESCRIPTION		DEBIT ENTRY	CREDIT ENTRY	DAILY BALANCE
01.01	DEBIT BALANCE		9,000,000.00		
01.01	DEBIT BALANCE		9,324,708.82		
01.01	RR	1106		505,804.00	
01.01					17,818,904.82
01.02	RR			323,860.27	
01.02					17,495,044.55
01.03	RR	1108		999,182.22	
01.03					16,495,862.33
01.04	CHK RET		10.00		
01.04					16,495,872.33
01.05	CHK RET		15.75		
01.05	WIRE		300,000.00		
01.05	RR			15.75	
01.05					16,795,872.33
01.06	WIRE		300,000.00		
01.06	CHK RET		0.75		
01.06					17,095,873.08
01.07	CHK RET		31.31		
01.07	CHK RET		13.65		
01.07	WIRE		150,000.00		
01.07	RR	1109		229,134.39	
01.07					17,014,791.74
01.08	RR	1110		131,728.19	
01.08					16,883,063.55
01.09	RR	1111		134,400.65	
01.09					16,748,662.90
01.10	RR	1112		254,954.72	
01.10					16,494,628.18
01.11	WIRE		500,000.00		
01.11	RR	1113		579,033.36	
01.11					16,415,666.82
01.12					16,415,666.82
01.13	WIRE		275,000.00		
01.13					16,690,666.82
01.14	WIRE		150,000.00		
01.14	RR	1114		425,266.57	
01.14					16,415,400.24
01.15	WIRE		100,000.00		
01.15	CHK RET		1.00		
01.15	RR	1115		396,980.26	
01.15					16,118,421.00
01.16	RR	1116		573,105.24	
01.16					15,545,315.76
01.17	RR	1117		546,554.76	
01.17					14,998,761.00
01.19	RR	1118		687,795.77	

A 3770

CBX 131

CBX 131

A 3771

MATTEL

Annual Report

FINANCIAL SECTION:

Financial Highlights

FOR THE YEARS ENDED JANUARY 29, 1972 AND JANUARY 30, 1971

	1972	1971*
Net sales	$272,358,000	$349,937,000
Income (loss) from continuing operations before income taxes	(50,025,000)	35,925,000
Income taxes (credits)	(24,905,000)	17,449,000
Net income (loss) before other items	(25,120,000)	18,476,000
Other items—net of income tax credits:		
Discontinued operations	(1,935,000)	(1,068,000)
Extraordinary items	(2,890,000)	—
Earnings (loss) per share of common stock:		
Continuing operations	(1.54)	1.18
Discontinued operations	(.12)	(.07)

MATTEL, INC. AND SUBSIDIARIES

Consolidated Statements of Income

FOR THE YEARS ENDED JANUARY 29, 1972 AND JANUARY 30, 1971

	1972	1971 (note 10)
NET SALES	$272,359,000	$349,937,000
COSTS AND EXPENSES		
Cost of products sold	$205,419,000	$223,918,000
Selling, general and administrative expenses	94,612,000	95,087,000
Other		
Special costs and expenses (note 14)	14,984,000	—
Estimated insurance recovery (note 9)	—	(10,000,000)
Expenses—net	7,368,000	5,007,000
	$322,383,000	$314,012,000
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$(50,025,000)	$ 35,925,000
Provision (credit) for income taxes (note 6)	(24,905,000)	17,449,000
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	$(25,120,000)	$ 18,476,000
LOSS FROM DISCONTINUED OPERATIONS, net of deferred income tax credits of $1,786,000 in 1972 and $1,009,000 in 1971 (note 10)	(1,935,000)	(1,068,000)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	$(27,055,000)	$ 17,408,000
EXTRAORDINARY ITEMS, net of deferred income tax credits of $2,009,000 (note 11)	(2,890,000)	—
NET INCOME (LOSS)	$(29,945,000)	$ 17,408,000
Primary earnings (loss) per share (note 8)		
From continuing operations	$ (1.54)	$ 1.18
From discontinued operations	(.12)	(.07)

A 3773

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

CREDIT FILE
☑ 2 YRS. (W/11 4 YRS.)
☐ PERMANENT
☐ SSF

DATE 1/23/68

FROM David L. Holzman TO Contract File - Comm.

SUBJECT: De Luxe Topper Corporation

Ron Saypol was in this morning and made a progress report as follows:

1. De Luxe Topper running ahead on collections. Reached figure of 5.9MM by 1/23.

2. Expects additional Junior participating money of 600M to 800M to be introduced some time before middle of March.

3. Will probably not hit 400M sales for January as projected. Because collections are so good, will not push for early sales in January. Expect sales of about 300M.

4. Has heard nothing further from Bill Hoffman of Union Fidelity of Newark concerning participation but will contact Romei when he does.

5. He is hopeful returns will be less than projected but doesn't want to make any definite statement yet.

6. L.A. Sales owes De Luxe Topper about 200M. Saypol intends to be tough.

DLH

CBX 134

A 3774 BOX 137

FIR NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

~~1504~~

DATE 10/31/69

GENERAL FI
CREDIT FILE
☐ 2 YR. (W/H 4 YR
☐ PERMANENT
☐ SSF

FROM David L. Holzman, VP TO Contract File

SUBJECT: Topper Corporation

In a telephone conversation with Henry Orenstein, the following might be of interest.

1. Henry Orenstein had predicted his profit for 1969 at $5MM, expecting it to really reach $7MM. However, (a) as a result of delays in receiving "Busybabys" from Japan and the added freight cost in having same shipped by air, and (b) as a result of increase in price paid to Gruisse for Johnny Lightning cars (17¢ to 23¢), the present prediction is that profit will not exceed the $5MM projected. Henry feels that long range he will benefit because the inability of Gruisse to produce at the contract price influenced the decision to set up his own production line which is now operating most efficiently. Since they expect to do $40MM in this item in 1969 and even more in 1970, they are happy to be in control of production.

2. At present, Topper is preparing 1970 projections which they hope to discuss with us in a couple of weeks. They will probably project Sales of $80MM and a profit of $10MM.

3. Henry is not sure whether they will use temporary line increase up to $14.5MM. Collections have improved with $6MM expected in October. (*)

4. Henry pointed out that despite the heavy cash flow in 1969 -- $3.5MM to Philadelphia & Reading, $1MM to Lines Bros., $2.2MM to Junior Participants -- they were able to handle cash flow with outside borrowings of only $2MM. Does not expect any heavy cash outflow for 1970.

5. They expect Johnny Lightning will result in shipments of $1.5 to $2 MM in each of January and February 1970 as against practically no shipments in 1969.

DLH

(*) as of 11/5 loan bal $14.1 mm.
J. Reed would like to have $14.5mm
through 12/15/69 (will secured by receivables) - increase over original E.C. filed amounts to 26.1% to increase.
- Herb

FINANCE ROUTING

HOLZ...
FISCH...
MARCOT...DUNN
A/C Exec. ...USK
Reading File
Contract File
EW

1538

A 3775

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE November 13, 1969

☐ GENERAL FILE
CREDIT FILE
☐ 2 YRS - 7 YRS
☐ PERMANENT
☐ SSF

A. J. Lusk, A.V.P. TO Contract File

SUBJECT: Topper Corporation

Messrs. Waldman, Holzman, and Lusk, met with the client on November 10th. Vice Presidents Rose and Downs and Treasurer, Schwartz represented Topper.

Increased volume of business has necessitated another request for increased line.

The following comparisons are significant:

	9 Months		F.Y.E.
	9/30/68	9/30/69	12/31/68
Sales	$23 MM	$31 MM	$35 MM
Net Profit (Before Spec. charges)	1.7MM	3.6MM	2.0MM
Special Charges	1.4MM	1.3MM	1.9MM
Final N.P.	.3MM	2.2MM	.1MM

Sales for the month of October were $9MM, therefore, for the first 10 months, they have already exceeded last year's volume. November volume is expected to be a minimum of $9/10MM. Volume for the year will then be well over $50MM. Profit at that level is projected to be close to $5MM before special charges of $1.8MM.

Client has also experienced some delay in collections due to tight money generally. With the substantial December 10th and January 10th dating given by client increased loan balance is expected to be reduced substantially shortly after December and January 10th.

We are obtaining money allocation for increased total line of $15,500M. Approval by participants will also be obtained.

A. J. Lusk
Assistant Vice President

AJL/cc

CC: Virginia Maynard, A.V.P.
Canadian District

H.D. V
E.W. C

CBX 138

CBX 138

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE 4/16/70

A 3776

☒ GENERAL F
Contract File CREDIT FIL
☐ 2 YEAR (...)/H 4 Y
☐ PERMANENT
☐ SSF

FROM David L. Holzman, VP TO

SUBJECT: Topper Corporation

Jack Rose and David Downs met with Ed Waldman and myself today and at their request, we have agreed to grant availability against chattels for the month of May in the amount of $2,665,000 (instead of $19,000 as provided in the projections) to be reduced in the month of June and the ensuing months as provided for in the projections. We are granting this extension because Topper will be delayed a couple of weeks in completing their underwriting.

We have also agreed that the sublimit for advances against accounts receivable granted to Youth Care, Incorporated within the $15,500,000 over-all line for Topper and Youth Care shall temporarily be increased to a sublimit of $2,000,000, also within the over-all credit line of $15,500,000.

Rose explained that they were running ahead in their shipments for Youth Care and a little behind in their shipments for Topper and that this matter should be cleared up within a reasonably short time.

DLH

FINANCE ROUTING

HOLZMAN
TOPPER
[illegible]
A/C Exec.
Reading File
Contract File
Exec
[illegible]

TUBE NO.

I think we should

MARKS

☐ PHONE ME ☐ RETURN WITH REPLY ☐ DO YOU APPROVE?
☐ CIRCULATE ☐ FOR YOUR COMMENTS ☐ MAY BE DESTROYED
☐ NOTE & SEND TO

(NAME, LOCATION, TUBE NO.) | INIT. | DATE

close - see

CBX 139

FACTORING AND COMMERCIAL FINANCE DEPARTMENT ☐ PERMANENT ☐ SSF

A 3777 DATE April 29, 1970

FROM A. J. Lusk, A.V.P. TO Contract File

SUBJECT: Topper Corporation

Mr. M. Siegel, A.C. and I visited the subject's plant and office yesterday and met with Jack Rose, Julie Schwartz and Dave Downs.

As advised previously, shipments have been somewhat behind projections. Financial statement and P & L for two months ended 2/28/70 show sales short of projection by $800M and J. Rose said they are probably behind by about $2MM to date. Shortfall is due to early production problems with the Jet powered Johnny Lightning cars which are now solved and production has been stepped up and end of month billing of this item will be very substantial. The second problem area is with the Down Doll (imported from Hong Kong). With the latter, they were obliged to fly some of the product to the U.S. to meet order commitments and may have to do so on occasion in future. Henry Orenstein is presently on the scene in Hong Kong and they expect better delivery schedules hereafter.

Orders (unadjusted) are presently $44MM vs. $38MM at this time last year. They will have a better feel for expected 1970 volume around June 1st.

The initial reception of "Young and Free" has been encouraging but at least six months experience will be needed before a firm judgment can be made.

The first quarter (3/31) figures will be certified as required for the expected public offering of stock. Adjustments and accruals will be on the same basis as a year-end closing, with the possible exception of advertising which will probably be deferred as applicable to business later in the year.

Jack Rose is very sensitive to possible upset in the economy and is keeping commitments flexible and watching credits closely. } as we should also be

We were conducted thru the plant which Mr. Siegel had not seen previously.

A. J. Lusk
Assistant Vice President

ROUTING

AJL/el

BRANCH FILE
CONTRACT FILE

CBX140

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3778 DATE May 3, 1971

FROM Edward Waldman, VP TO Contract File

SUBJECT:

TOPPER CORPORATION

Orenstein objected to the notification feature of the "warehouse letter". I invited him to submit his own version and we will talk about it when we receive same.

Edward Waldman
Vice President

EW:SS

Remind 7 mid
Send 5 - 6 AM

CB X 141

A 3779

March 5, 1969

Investment Outlook
(Meeting with Investment Officers of
First National City Bank)

Mr. Leif Olsen, Sr. Vice President and Economist, believes that the Federal Reserve Board is serious in its desire to control inflation. In the past twelve to eighteen months monetary policy has gyrated, depending upon Treasury needs for financing and the current thinking of the FRB. However, Mr. Olsen expects a restrictive policy is now likely. He cited the fact that there had been no growth in the money supply over the past three months. He anticipates considerable restraint and the question is whether, when it takes hold, the Federal Reserve will relieve the pressure. The bank's Economics Department looks for a Gross National Product of $925 to $930 billion, with 4% real growth and 4% inflation. A 4% price increase contemplates that the Federal Reserve pressure on the economy either will not be successful or will not be maintained. If the Federal Reserve is successful, I gather Mr. Olsen believes that it would be necessary to revise downward his forecast. An increase in corporate profits of 3% to 5% is anticipated this year. However, a slowdown in business is looked for in the second half year with almost all of the improvement in corporate profits occurring in the first half. There is a risk of a business recession in 1970. It is anticipated that corporate capital expenditures will be up about 13% this year. For the fiscal year ended June 30th, a balanced budget or perhaps a slight surplus is anticipated. Mr. Olsen pointed out that in the second quarter the Treasury would be repaying debt.

As far as money rates are concerned, Mr. Olsen believes there is a good chance of a 1/2% increase, not only in the discount rate and the prime rate but also in the Bill rate. The latter has been level since the end of December, reflecting Bill purchases with proceeds of C/D's and sales of equities. While Mr. Olsen believes that, shorter term, rates will increase, he looks for lower interest rates by the year end, the change occurring in the middle or towards the end of the third quarter. By mid 1970 he can visualize long-term rates 150 basis points below present levels and Treasury Bills 200 to 250 basis points under current rates.

Mr. George Lingua, Sr. Vice President in charge of the Pension Trust Division, said that they had built up cash in their pension trusts to the extent of 6% to 8% of the total during the last three quarters of 1968. Part of this was from the sale of $120 million of bonds, including $80 million of private placements. On the decline that has occurred to date, they have invested about one-third, or 2%, of this money. Their average pension trust is nearly 75% in equities on which they expect a long-term compound growth rate of 8% to 10%. The equity section is expected to increase at a 10% to 12% rate.

Mr. George Egbert, Vice President in charge of Investment Research, discussed the securities the bank is now purchasing: Avon, below 130, Coca-Cola, Texas Instruments, Hewlett-Packard, Harris-Intertype,

CBX 146

TRW, General Motors, Associated Dry Goods, Kresge, Penney, Federated Department Stores, Holiday Inns, and Xerox. They are not currently purchasing IBM in accounts holding the stock because they feel that the intermediate outlook is dull due to the anti-trust suit. However, for a new account, they would not hesitate to purchase 5% in IBM. They are also purchasing Atlantic Richfield, Kerr-McGee, Union Oil, and would purchase additional Louisiana Land under 70. Among the chemicals, they have added to Hercules and FMC but have been selling duPont. In the drug field, they have been adding to Bristol-Myers, Eli Lilly, and American Home, but selling Upjohn and Searle. Their largest position is in Merck, which they have been retaining. They have also been adding to MMM, as well as to some of the growth utilities.

Among the smaller companies, they have been purchasing Masco, Monogram Industries, Whittel, and Planning Research, although the latter is believed to be high. In the conglomerate field, they have been adding to City Investing.

Harvey Molé

July 3, 1969

Investment Outlook
(Meeting with Investment Officers of
First National City Bank)

Messrs. Nelson and Molé met with Howard Miller, Vice President, and Leif Olsen, Sr. Vice President and Economist, as well as George Lingua, Sr. Vice President, and George Egbert, Vice President, of the Investment Department.

Mr. Olsen said that his previous forecast had indicated that interest rates would have peaked out and leveled off by this time. However, when the Federal Reserve exercises restraint on the money market, interest rates tend to rise and then to peak out with a lag of six months to a year, sometimes even two years. In the recent past, interest rates have tended to reach their peak before the downturn in business has become evident, as in 1966. He does not doubt that the present policies will result in a pervasive slowdown of economic growth, no later than the fourth quarter of 1969 or the first quarter of 1970. The high in interest rates could be reached this Summer or as late as September. He expects short-term interest rates to decline before long-term rates.

In the business downturn, the decline in the volume of sales will certainly result in a drop in corporate profits. First quarter profits, as tabulated by the First National City Bank, were rather disappointing, and it is expected that in the second quarter there will be further deterioration. However, the real decline is expected in the third quarter and second half. Automobile sales have been maintained due to price cutting and sales promotion. Inventories on May 31st were 1.7 million units, which is about 700,000 in excess of the optimum level at this time of year. Retail sales in June were down, particularly in such postponable items as air conditioners, porch furniture, etc.

Mr. Olsen expects corporate profits will decline at least 20% within twelve months. This compares with a 23% decline in 1961 and a 44% decline after the Korean War. With present high costs, high volume is required to show any profit.

Mr. Olsen pointed out that an inverted yield curve, in which short-term rates are above long-term rates, has existed before previous downturns, specifically in July of 1957, December of 1959, and August of 1966. Such a condition exists at the present time. He anticipates an eventual decline in bond yields of about 1% and in short-term rates of about 2%. He believes that in nine months we will have a much better clue to the business outlook.

The First National City Bank has about $300 million in cash as a reserve for buying equities. This is equivalent to 5% to 10% of the average account. In the first quarter, they invested about $25 million in cash and in April and May spent about $10 to $15 million a month. The Investment Department on June 17th gave a list of their recommended

CBX 147

stocks to the Pension Department. This included

IBM	314
Xerox	259
American Home Prod.	53
Eli Lilly	
Merck	91
Pfizer	83
I.T. & T.	50
Perkin-Elmer	48
Avon	154
Gillette	51
Coca-Cola	71
General Mills	33
Ralston	23

Federated Department Stores
City Investing
Loew's
Pennsylvania Life
Hewlett-Packard
Kresge
Unishop
Holiday Inns
Masco
Atlantic Richfield
Amerada
Louisiana Land
Pennzoil
Textron

The bank has been disposing of cyclical issues and regards chemicals as largely cyclical; specifically, they have been selling duPont. The only chemicals they have purchased have been FMC and Hercules. In regard to building issues, they are not as optimistic as many on single family housing, believing that apartments and multi-family units will account for most of the activity. Purchases are being made on the basis of a 15% annual return, including dividends and appreciation, over the next twelve to eighteen months. It is quite possible that some of these issues may be sold at the end of this time.

Harvey Molé

Noted RC

A 3783 April 16, 1970

Business Outlook

We talked with the Economist and several investment officers of First National City on the current business outlook. They question a near-term upturn in business in spite of the increase in Social Security payments. Declining corporate profits are a more important depressing factor. For their 250 companies, first quarter profits were 6% below a year ago and 15% below the fourth quarter of 1969. There has been a slowdown in inventory accumulation and further inventory adjustments are expected. Retail sales are not particularly strong, although there was some improvement in aircraft and housing starts in February. They expect economic activity to deteriorate further in April.

The GNP in the first quarter will be 3% to 7% ahead of a year ago in current dollars, but, adjusting for price inflation, there will be a 2% to 6% decline. Corporate profits in the second quarter will make a poorer showing against last year than in the first quarter. They expect some improvement in the third quarter and a pick-up in the fourth quarter. It is believed that we are currently experiencing a recession.

Short-term interest rates have declined as expected, but long-term rates have not moved down as anticipated, probably because the price inflation has not been arrested. It is expected that Aaa bond yields will decline from 8 1/2% to about 7% and Treasury Bills to the 5% to 5.25% levels before the year end. Consumer credit has been slowing down but by less than expected amounts. Capital expenditures in calendar 1970 are expected to be up only 3% to 4% and will be declining in the second half of this year. This reflects the decline in first quarter corporate profits.

For pension trusts, First National City Bank was a substantial buyer of stocks in the first quarter, adding about $70 million in January, $35 million in February, and $45 million in March. These relate to a total stock holding of about $3.5 billion. The typical pension fund has 5% buying power reserve remaining. The bank has been buying public utility stocks; some life companies including Travelers, Combined Insurance and Pennsylvania Life; National Cash; Digital Equipment; Honeywell; American Hospital Supply; Becton, Dickinson; Planning Research; Memorex; Hewlett-Packard; Eli Lilly; Merck; Pabst; Heublein; Amerada; Pennzoil; Atlantic; and Louisiana Land. Forty percent to sixty percent of the stock holdings are in technology stocks and the balance in consumer companies. Their five largest holdings, which include IBM, Avon, Xerox, etc., amount to 34% of total stocks, and the top fifteen holdings, 56% of total stocks. Oils currently amount to 6%. They have started to add a few cyclical companies such as Caterpillar Tractor. They have also participated in the venture capital funds started by Mr. Heiser and New Court Securities. While they agree that there is a delegation of authority, they look at these investments as a timesaver for their own staff.

CBX 148

A 3784

November 2, 1970

Notes on Meeting with First National City Bank Economist and Investment Department Chief

(J.Meigs, W. Jeffers, G.Lingua, and M. Pescatello)

THE ECONOMY:

Meigs, the economist, stated that he was somewhat more optimistic than most economists. He is using a higher 1971 figure for GNP, both in dollars and real terms. His GNP estimate for 1971 in current dollars is $1,055 billion which compares with $976.6 billion for 1970. In terms of real GNP, the increase would be 4.4%. The figures assume no steel strike although in quarterly data, allowance has been made for an inventory build-up in preparation for a strike. Meigs believes it very unlikely that high unemployment will continue beyond next year and is assuming a 6% to 5% unemployment level for 1971. He foresees a sizable increase in productivity which should be good news for profits and prices.

An 8.6% rise in consumer spending is an important factor influencing Meigs, optimistic view for 1971. He has consumers' durable spending up 12% with special strength in autos and appliances. He thinks residential construction will be up about 20% in dollars. As for the GNP deflator, he has used a figure of 3½% in 1971 vs. 5.1% in 1970. He thinks the deflator will be down to 2.6% by the end of 1971.

As regards business capital expenditures, he is estimating virtually no change. His 1971 estimate of $102.1 billion compares with $102.3 billion for 1970.

He is not very disturbed over the big Government deficits and explained that the Nixon Budgets were designed as if there were full employment. Accordingly, large deficits occur in periods of slump and low employment, and surpluses should be experienced in a full-employment economy.

There should be a good bounce in corporate profits in 1971. The bottom of corporate profits on a seasonally adjusted basis was reached in either the second or third quarter of 1970. Meigs would expect corporate profits in 1971 to be up 10% to 12% and on one of his models the figure worked out to as high as 19%.

As for interest rates, short-term money rates appear on the low side now and will probably work back up a little. Longer-term rates may come down a little, but not much.

The consumer price index will continue rising but at a slower rate. The trend of a lower rate of increase is already in evidence and it should continue.

INVESTMENT COMMENTS:

In view of Meigs' forecast on the economy, the Bank is orienting portfolios more toward consumer areas and a little less toward the technology side. Technology has been and will remain heavy but some additional weight is being accorded consumer stocks. Some of the stock positions that have been increased include Xerox, Avon Products, Coca Cola and Kodak.

CBX 149

The Bank has been accelerating its accumulation of stocks and committing its buying reserves. Buying reserves stood at $350 million prior to May and the number is now about $200 million. New money has been coming in at a somewhat faster rate than expected. Thus far in 1970, the net accumulation of stocks has been at least twice the amount for the comparable period of 1969. I gather that the Bank would like to attain a virtually full stock position by the year-end. The strategy appears to be that if 1971 is a year of recovery, stocks will afford an investment return on the years ahead well in excess of the 9% now available from bonds. The Bank's own Fund is about 78% in equities at market. Equities would include convertibles and leasebacks but these are relatively small.

Pescatello said that in the Pension Fund Advisory Accounts, he noted somewhat more confusion on the investment committees than in the past. While there is less fear over equities than a few months ago, there remain doubts and in many cases there are preferences for bonds. Pescatello mentioned Virginia Electric Power and American Electric Power as examples of attractive stocks where the investment return could range between 10% - 15% over a number of years and afford returns superior to bonds.

John G. Van Deusen

A 3788

April 13, 1971

Memorandum to Mr. Mole

First National City Bank Meeting

(George Lingua, George Egbert, Walter Jeffers, Phil Hessler, Leif Olsen)

Leif Olsen felt that most economists have a strong political bias and that this is the principal reason for pessimism about the recovery in the economy. He believes that the first quarter of 1971 will show a $29 billion increase in the annual rate of GNP compared with the Administration's projection of $35 billion, but that this is still a very strong showing. In his opinion, bearishness in business sentiment is normal for a recovery period and he sees a real pickup in personal consumption compared with the fourth quarter of 1970 with particularly good gains in durable goods and March retail sales. With industry operating at about 73% of plant capacity and manpower inflows into the labor supply about equaling expected incremental needs, Mr. Olsen implied that we should have good profit margin recovery as volume picks up throughout the year.

The Bank feels that the Federal Reserve was correct in increasing the money supply at about 7%-8% during the first quarter of 1971 since the rate of expansion in the final three months of 1970 was below the rate needed to keep the economy moving ahead at a good recovery pace. If the Fed does not decelerate its rate of money supply growth to about 5%-6%, the Bank will "hang out all the danger flags". Mr. Olsen, however, believes that the Fed will continue its recent slower pace of monetary expansion and that this together with the dampening effects of past policies will prevent a recurrence of rampant inflation. The Bank believes that short term interest rates will move up further and that they should be 5% on bills to be on the trendline. Longer term Aaa Corporates should be about 7-3/4% to be on trend with the Bank assuming a 4% rate of inflation in reaching this forecast. The FNCB people do not believe that we shall see a recurrence of the "roller coaster" effect whereby interest rates would rise to 9% but they believe that real progress in reducing longer term yields will not occur until 1972.

Mr. Olsen emphasized monetary policy as the most important weapon of the Administration since there is so much disagreement on spending programs that he does not foresee much pickup in governmental pump-priming expenditures. He is also optimistic on the size of the Fed deficit and believes that if revenue sharing - which would account for $4 billion of the deficit - is put off further that the Government might have a deficit of less than $12 billion. He does not foresee a deficit of over $17 billion next year and believes that the $35 billion cited by some assumes both another recession and a gross error in estimation on the part of the Administration.

The Bank also has a rosy outlook for the Balance of Payments relative to most economists and it believes that we may have an inflow of longer term capital commitments into the U.S. over the next several months. He cites a willingness on the part of Germany and other European nations to hold U.S. dollars which in aggregate now total close to $20 billion, and expected rising short-term interest rates here to prevent a further drain on U.S. gold. Germany recently cut its discount rate and the rate of inflation in Europe is temporarily faster than our

CBX 150

own so that we may have a respite from this problem. Mr. Olsen does not look for a basic improvement in trade position and in effect he seemed to be saying that the balance of payments will not be much of a problem for the nation for the rest of 1971.

George Lingua and George Egbert indicated that the Bank is not continuing to buy so aggressively as it has in the past, and that in fact it is building some cash reserves. This is not so much a basic policy change as a cleaning out of secondary companies at this market level and a failure to re-invest the proceeds quickly because of inability to find attractive names. Reserves in the past had been in the 8% - 10% range and then the Bank became fully invested, but FNCB now has about 6% - 8% in cash. The trend seems to be to move towards a larger cash position as the averages move up but Mr. Lingua has not yet made this a formal directive to his portfolio people.

Both seemed hard-pressed to come up with any groups that they thought attractive. Autos and banks were cited as being good value and the chemicals are a group that the Bank is looking at to play a cyclical recovery. Individual issues mentioned include Ford, General Motors, Comsat - which was particularly well-thought of - Texas Instruments, General Electric, TRW, IBM, Digital Equipment and Memorex. Planning Research and Honeywell were also mentioned, but with seemingly less conviction than the other names or groups.

FNCB has the most optimistic non-Administration forecast I have yet heard and expects a good follow-through from the present recovery in business. Even so, their investment people are now moving towards a much less aggressive posture and appear to be having real problems in coming up with good ideas to put new money to work. Our postures are quite similar and there seemed no real area of disagreement on current investment strategy between the Bank and the Pension Fund.

Henry L. Thompson

Henry T Packard
Packard & Cuneo

A 3788

47

September 29, 1971

Morgan Guaranty's Current Investment Policy

Mr. Calloway stated that Morgan Guaranty had been buying substantial amounts of stocks for their pension account in the first six months of this year. More recently, at a less aggressive rate, the principal areas of investment have been companies that will benefit from consumer spending, such as Sears, J.C. Penney, Kresge, etc. They have also bought some insurance companies, some chemical companies and IBM, while purchases have been principally in the domestic oils such as Louisiana Land, Schlumberger, etc.

Their pension funds have also been investing in the Morgan Guaranty managed fund which invests in medium-sized companies as well as the fund which invests in real estate. They have not been purchasing electric utilities nor bank stocks to any considerable degree.

Harvey Mole

CBX 151

A 3789 CBX154 January 19, 1971

Jvd. 6

Investment Meeting
with
Officers and Economist of First National City Bank

Nolan Bailey said that their pension fund accounts were now at virtually fully invested positions. Reserves are only 5 - 6% . The aggressive policy reflects the optimistic view of the Bank's economics department toward the economy. Its forecasts are at the higher end of most projections. Stock purchases have been largely in the consumer-oriented area - retail trade, appliances, etc. However, current prices are up substantially and some attention is being given to some of the cyclicals that are nearer the middle of their price ranges. Chemicals may be a satisfactory group in an economic upturn. Research and technology stocks have been de-emphasized - not through selling or switching but by simply not buying.

Leif Olson, the Bank's economist, believes the odds are virtually nil of a significant stock market decline occurring. He is forecasting a 1971 real growth of over 4% - perhaps 4½%. He has corporate profits up 10 - 15% which is a smaller increase than that which has occurred in other recoveries. Productivity has already shown signs of turning up and is certain to increase in 1971. His only question is by how much. Olson's forecast apparently is in tune with that of the Administration. With over 4% real growth, the budget deficit could be under $10 billion and with eventually full employment, a small surplus is possible. Unemployment is close to peaking now but may reach 6½% and then come down slowly. He believes the critical point on inflation is the posture of monetary policy. Olson himself is a monetarist and believes that the Fed will pursue a moderate course of monetary growth so that inflation will not re-accelerate. In fact, Olson contends that inflation could level off at 3% with money growing at a steady 5% annual rate. He is clearly less apprehensive over renewed inflation than most and is encouraged that acceleration in the rate of inflation stopped in 1969 and that deceleration has been evident since mid-1970. He points to price cutting now in some commodities and non-ferrous metals. Olson made a rather novel case to me as regards cost push inflation. As I got his message, prices are raised to offset rising costs during economic downturns, in an effort to hold margins. Even so, margins deteriorate with declining business. On the other hand, when business recovers, margins pick up and there is less need for price increases. Olson believes there is a considerable basis for likening the present to the 1957-58 period when profits recovered strongly.

All in all, First National City emphasized the strengths and minimized the concerns. There is a decided preference for stocks over bonds. Someone mentioned that bank stocks with historical earnings growth of around 10% remain superior investments to bonds.

John C. Van Deusen

A 3790 CBX 155

U. S. STEEL & CARNEGIE PENSION FUND New York City

Confidential

At our invitation Pres. Harvey Mole came in late yesterday afternoon to learn from SVP Garvin and me our decision regarding their complaint that we had given them a misleading report on Topper Toys last August which resulted in their investing $3MM in Topper's convertible subordinated debentures. We pointed out that it was unfortunate that there was apparently something of a language barrier when their Investment Manager, Henry Thompson, had talked to Ed Waldman of our Factoring Department, namely that Mr. Thompson did not recognize that the very fact that Topper was a customer of the Factoring Department should have been an indication of probable thin capitalization and/or high risk. We also pointed out that (1) the wide fluctuations and adverse developments in Topper between June and December 1971 were so common to the toy industry at any time and particularly in 1971, that our Factoring Department probably treated them with much less vocal alarm than we in the Banking Division or they in the Pension Investment business would have, and (2) this was borne out by our people continuing to make additional advances to Topper outside their borrowing base all the way into December.

With regard to the possible inference by Mr. Mole that we had given them an unduly favorable report because some of the proceeds of their investment in Topper were used to reduce our loans, we pointed out that we had, in fact, complained to Topper about our outstandings being reduced so drastically and had extracted a fee from them to make up for some of our loss in earnings. We also stressed that, even today, we are endeavoring to find a way to keep Topper afloat by making additional loans to them which might ultimately result in some recovery for Mr. Mole.

When Mr. Mole had first come two or three weeks ago to see Mr. Wriston who referred him to Mr. Garvin, he had indicated a desire to share in our collateral. Today, we made no mention of this idea, an obvious impossibility because of the participation in this collateral by other secured creditors, and Mr. Mole did not revert to it either. He took our conclusions in good grace, although it is possible that we may hear further from him.

W. W. Jeffers
Vice President

February 15, 1972
am

cc. Mr. Lester Garvin, SVP
Mr. Edward Waldman, VP

File: United States Steel Corp.

THE FIRST NATIONAL CITY BANK OF NEW YORK
NEW YORK, N. Y.

A 3791

Box 159

RECEIVED
APR 1960
F.D.F.

April 6, 1960

Mr. R. C. Tyson
Chairman, Committee on Finance
United States Steel & Carnegie Pension Fund
71 Broadway
New York, New York

Dear Mr. Tyson:

Commencing with an agreement dated November 30, 1950 we have acted as custodian for the assets of the United States Steel & Carnegie Pension Fund at a scale of fees which has been adjusted from time to time as the growth of the Fund and other considerations warranted. The agreement itself has been amended from time to time and the one now in effect, under which we are operating, is dated April 3, 1959. After due consideration of all the circumstances and a further study of our operating costs, we think it would be fair and equitable to change the present fee schedule as it was fixed by letter agreement of July 16, 1956 so that commencing January 1, 1960 our compensation for acting as custodian in accordance with the custody agreement dated April 3, 1959 will be:

1/100ths of 1% of the value of the Fund from time to time.

The terms of the amended agreement dated April 3, 1959 will remain in full force and effect, except insofar as they may be affected by the change in compensation hereinabove provided.

If the foregoing meets with your approval, please be good enough to sign and return the enclosed copy of this letter, which will then constitute an agreement between us.

Very truly yours,

Floyd D. Frost
Vice President

Enc.

THE FOREGOING LETTER AGREEMENT IS
HEREBY APPROVED AND ACCEPTED.

R. C. Tyson

4/11/60

CBX 160

A 3792

EXCESS COLLATERAL OF LENDING BANKS OVER ADVANCES TO TOPPER UNDER FINANCE AGREEMENT*

1971	Accounts Receivable	Inventory	Fixed Assets	Cash Collateral	Bank Borrowings of Topper	Total Collateral	Excess Collateral
January	19,991,958.67	5,686,204.03	7,605,775.71	4,500,000	15,281,622.83	37,783,938.41	22,502,315.58
February	19,379,219.67	7,017,538.83	7,693,187.15	4,500,000	18,218,335.54	38,589,945.65	20,371,610.11
March	22,080,644.70	7,544,005.69	7,483,667.72	3,000,000	16,828,754.09	40,108,318.08	23,279,564.02
April	21,903,248.20	8,172,956.45	7,423,381.66	2,500,000	17,178,877.79	39,999,586.31	22,820,708.52
May	23,250,274.31	9,304,429.95	7,388,498.82	1,500,000	14,280,174.97	41,443,203.08	27,163,028.11
June	29,077,289.81	8,540,072.12	7,052,484.76	1,750,000	18,551,714	46,420,054.69	27,868,340.69
July	29,411,402.37	10,598,681.13	6,681,091.96	1,750,000	19,867,467	48,441,175.46	28,573,708.46
August	30,321,326.07	11,497,201.40	6,186,173.33	1,750,000	20,713,978	49,754,700.80	29,040,722.80
September	36,184,275.74	10,878,229.20	6,259,011.10	1,250,000	15,712,794	54,571,516.04	38,858,722.04

* U.S. Steel Admissions 245-245A, based upon data in Topper's monthly financial statements for January through September, 1971 (PX 1-5, 399-402).

A 3793

OVERADVANCES: COMPARISON OF 80% OF TOPPER'S ELIGIBLE ACCOUNTS RECEIVABLE TO LENDING BANKS' ADVANCES*

CBX 161 Revised

Date	(a) Receivables 61 Days or More Past Due	(b) Otherwise Ineligible Receivables	(c) Excess of Eligible Collateral over Loan Balance (or Excess of Loan Balance over Eligible Collateral)	(d) Eligible Non-Receivable Collateral	(e) Excess of 80% of Eligible Receivable Collateral Over Loan Balance (or Excess of Loan Balance Over 80% of Eligible Receivable Collateral) [(c) less (d)]
3/28/69	$ 769,134	$ 390,395	$ 256,239	$2,385,000	(2,218.761)
4/4/69	769,134	390,395	24,426	3,500,000	(3,825,574)
4/11/69	769,134	392,311	166,217	3,850,000	(3,683,783)
4/18/69	959,408	195,247	571,783	3,850,000	(3,278,217)
4/25/69	959,408	195,247	528,970	3,850,000	(3,321,030)
5 [illegible]/69	959,408	205,408	(299,435)	3,500,000	(4,149,435)
5/9/69	959,408	226,658	(312,616)	3,500,000	(3,812,616)
5/16/69	626,676	132,821	(322,277)	3,500,000	(3,832,277)
5/23/69	626,676	139,249	(353,446)	3,500,000	(3,853,446)
7/3/69	690,387	195,769	357,323	3,400,000	(3,042,677)
7/11/69	690,387	220,831	(164,546)	4,400,000	(4,564,546)
7/[illegible]/69	690,956	260,091	(92,440)	4,400,000	(4,492,440)
7/25/69	690,956	190,668	(1,054,525)	3,400,000	(4,454,525)
10/3/69	905,562	167,960	849,413	225,000	600,000
10/10/69	905,562	167,960	1,209,938	100,000	600,000
10/17/69	905,562	167,960	1,721,661	600,000	1,121,661
10/24/69	1,110,768	106,192	1,803,249	600,000	1,203,249
10/31/69	1,110,768	120,007	1,746,731	100,000	1,646,731

* Based upon data in Topper's daily advance sheets available for the period 1969-71 (CBX 128); weekly dates missing from the chart are the result of inability to locate advance sheet for those dates. See U.S. Steel Admission 18.

A 3794

Date	(a) Receivables 61 Days or More Past Due	(b) Otherwise Ineligible Receivables	(c) Excess of Total Eligible Collateral Over Loan Balance	(d) Non-Receivable Collateral	(e) Excess of Receivable Collateral Over Loan Balance [(c) less (d)]
11/7/69	$1,110,768	$ 120,007	$1,837,873	$ 20,000	$ 1,817,873
11/14/69	1,110,768	120,007	1,864,539	20,000	1,844,539
11/21/69	1,110,768	120,007	2,234,148	20,000	2,214,148
11/28/69	1,110,768	120,007	3,158,651	20,000	3,138,651
12/19/69	1,110,768	2,145,096	1,249,365	790,000	459,365
12/26/69	1,110,768	2,145,096	499,778	1,390,000	(1,290,222)
1/30/70	1,553,370	2,032,371	1,097,886	20,000	1,077,886
2/6/70	1,553,370	1,532,371	1,234,224	2,000,000	(765,776)
2/13/70	1,553,370	1,532,371	1,582,351	3,000,000	(1,417,649)
2/20/70	2,381,312	1,553,269	1,756,750	3,000,000	(1,243,250)
2/27/70	2,381,312	1,556,430	1,336,999	4,100,000	(2,763,001)
3/6/70	2,381,312	1,577,448	(188,491)	4,100,000	(4,288,491)
3/13/70	2,310,695	1,585,298	(217,744)	4,100,000	(4,317,744)
3/20/70	2,310,695	1,585,298	(662,916)	4,100,000	(4,762,916)
3/27/70	2,310,695	936,338	(1,011,644)	4,100,000	(5,111,644)
4/3/70	2,310,695	942,117	(692,617)	4,600,000	5,292,617
4/10/70	2,512,309	599,980	(571,731)	4,600,000	(5,171,731)
4/17/70	2,512,309	21,105	(108,876)	4,600,000	(4,708,876)

A 3795

Date	(a) Receivables 61 Days or More Past Due	(b) Otherwise Ineligible Receivables	(c) Excess of Total Eligible Collateral Over Loan Balance	(d) Non-Receivable Collateral	(e) Excess of Receivable Collateral Over Loan Balance [(c) less (d)]
4/24/70	$2,512,309	$ 21,105	$ (232,862)	$4,300,000	$(4,532,862)
5/1/70	2,512,309	34,245	(434,817)	4,265,000	(4,699,817)
5/8/70	2,512,309	34,245	301,903	4,265,000	(3,963,097)
5/15/70	1,328,072	52,162	900,129	4,265,000	(3,364,871)
5/22/70	1,328,072	66,737	594,349	4,265,000	(3,670,651)
6/30/70	1,597,753	807,827	(862,404)	2,300,000	(3,162,404)
7/3/70	1,597,753	807,827	(866,249)	2,300,000	(3,166,249)
7/10/70	1,212,935	532,050	(482,919)	2,300,000	(2,782,919)
7/17/70	1,212,935	312,050	102,667	2,300,000	(2,197,333)
7/24/70	1,212,935	747,525	(483,883)	2,300,000	(2,783,883)
7/31/70	1,212,935	682,525	(896,493)	1,000,000	(1,896,493)
8/7/70	1,212,935	682,525	(316,346)	1,500,000	(1,816,346)
8/14/70	1,212,935	682,525	730,324	1,500,000	(769,676)
8/21/70	2,331,558	304,810	49,874	1,500,000	(1,450,126)
8/28/70	2,331,558	304,810	788,834	1,500,000	(711,166)
9/4/70	2,331,558	54,810	683,767	1,400,000	(716,233)
9/11/70	2,331,558	54,810	276,299	1,400,000	(1,123,701)
9/18/70	2,700,411	36,808	901,581	1,400,000	(498,419)

A 3796

Date	(a) Receivables 61 Days or More Past Due	(b) Otherwise Ineligible Receiv...	(c) Excess of Total Eligible Collateral Over Loan Balance	(d) Non-Receivable Collateral	(e) Excess of Receivable Collateral Over Loan Balance [(c) less (d)]
9/25/70	$2,700,411	$ 36,808	$ 564,540	$1,400,000	$(835,460)
9/29/70	2,700,411	36,808	945,758	1,400,000	(454,242)
10/6/70	2,700,411	37,297	311,630	None	Same as (c)
10/30/70	3,197,287	539,113	37,747		
11/6/70	3,197,287	539,113	(623,122)		
11/13/70	3,197,287	39,113	(632,856)		
11/20/70	3,885,225	58,124	(535,238)		
11/27/70	3,885,225	58,124	(501,950)		
12/4/70	3,885,225	58,124	312,169		
12/11/70	3,885,225	2,878,455	(698,438)		
12/18/70	3,605,225	3,261,467	(1,113,600)		
12/30/70	3,832,221	2,033,656	(527,444)		
1/8/71	3,832,221	3,461,160	(645,917)		
1/15/71	3,832,221	2,645,263	(1,300,808)		
1/22/71	3,285,313	2,580,208	(819,233)		
1/29/71	4,154,397	4,129,374	(860,159)		
2/5/71	4,092,964	4,140,866	(2,130,185)		
2/11/71	4,092,964	4,372,887	(3,291,763)		

A 3797

Date	(a) Receivables 61 Days or More Past Due	(b) Otherwise Ineligible Receivables	(c) Excess of Total Eligible Collateral Over Loan Balance	(d) Non-Receivable Collateral	(e) Excess of Receivable Collateral Over Loan Balance [(c) less (d)]
2/19/71	4,558,395	4,497,555	(4,155,904)	None	Same as (c)
2/26/71	4,261,067	47,963	(37,073)		
3/5/71	4,261,067	47,963	(2,350,715)		
3/12/71	4,228,791	996,347	715,892		
3/19/71	5,372,455	1,040,977	106,145		
3/26/71	5,226,806	1,128,338	(512,426)		
4/2/71	5,185,100	1,305,311	629,949		
4/9/71	4,927,398	1,578,194	(172,124)		
4/16/71	7,787,686	1,537,952	(2,882,607)		
4/23/71	7,608,335	1,722,644	(3,299,964)		
4/30/71	7,591,079	1,939,116	(3,630,504)		
5/7/71	7,565,550	1,832,874	1,435,920		
5/14/71	7,467,651	2,085,981	820,328		
5/21/71	7,429,454	2,154,704	375,103		
5/28/71	7,359,227	2,420,931	(638,198)		
6/4/71	6,468,978	2,636,639	(1,339,810)		
6/11/71	3,749,096	2,624,428	442,888		
6/18/71	3,635,806	2,632,397	329,250		
6/25/71	3,619,746	3,255,806	528,265		

A 3798

Date	(a) Receivables 61 Days or More Past Due	(b) Otherwise Ineligible Receivables	(c) Excess of Total Eligible Collateral Over Loan Balance	(d) Non-Receivable Collateral	(e) Excess of Receivable Collateral Over Loan Balance [(c) less (d)]
7/1/71	$ 3,619,746	$4,249,214	(864,857)	None	Same as (c)
7/2/71	3,506,130	5,449,065	27,664		
7/9/71	3,506,130	5,462,195	(297,101)		
7/16/71	3,479,587	5,541,918	(432,583)		
7/23/71	3,539,782	5,659,645	(1,126,046)		
7/30/71	3,539,782	5,738,538	(622,615)		
8/6/71	3,539,782	5,906,340	(1,049,828)		
8/13/71	9,520,409	4,382,112	(4,407,819)		
8/20/71	9,536,812	4,158,423	(4,518,369)		
8/27/71	9,536,812	4,428,868	(5,052,302)		
9/3/71	9,536,812	4,775,849	(4,512,935)		
9/10/71	9,536,812	4,775,849	(4,546,618)		
9/17/71	9,327,242	4,773,486	(3,917,270)		
9/24/71	9,302,602	138,083	(2,308,953)		
9/30/71	9,302,602	138,083	4,536,100		

A 3799

	(a)	(b)	(c)	(d)	(e)
Date	Receivables 61 Days or More Past Due	Otherwise Ineligible Receivables	Excess of Eligible Collateral over Loan Balance (or excess of Loan Balance over Eligible Collateral)	Eligible Non-Receivable Collateral	Excess of 80% of Eligible Receivable Collateral Over Loan Balance (or Excess of Loan Balance over 80% of Eligible Receivable Collateral) [(c) less (d)]
10/1/71	$ 9,302,602	$ 138,083	$4,642,668	None	Same as (c)
10/8/71	9,302,602	298,654	3,800,540	None	Same as (c)
10/15/71	13,058,004	1,236,985	2,073,769	None	Same as (c)
10/22/71	13,058,004	1,236,485	1,641,498	None	Same as (c)
10/29/71	13,058,004	1,236,985	829,728	None	Same as (c)
11/5/71	13,058,004	272,251	401,493	None	Same as (c)
11/12/71	16,933,848	88,105	(1,832,528)	None	Same as (c)
11/19/71	16,796,067	88,105	(2,585,720)	None	Same as (c)
11/26/71	16,693,633	88,105	(2,478,190)	None	Same as (c)
12/3/71	16,677,106	127,930	(2,285,036)	None	Same as (c)
12/10/71	16,257,957	1,146,455	(1,829,222)	None	Same as (c)
12/17/71	15,267,576	1,166,657	(2,599,018)	None	Same as (c)
12/24/71	13,304,274	1,166,657	(2,410,231)	None	Same as (c)
12/31/71	15,273,453	1,166,657	(6,381,717)	None	Same as (c)

CBX 162

TOPPER NET INCOME (LOSSES) FOR FISCAL YEARS 1966-1970 AS SHOWN IN AUDITED 1970 FINANCIAL STATEMENTS PREPARED BY TOPPER (IN PX 462)

Fiscal Year	Net Income (or Loss)
1966*	$ (18,714,721)
1967**	(833,144)
1968	596,214
1969	2,716,373
1970	353,127

* For the period 10/4/66 - 2/4/67

** For the period 2/5/67 - 12/31/67

CBX 163

TOPPER'S NET INCOME (LOSS)
YEAR TO DATE FOR 1968, 1969, 1970, 1971
AS SHOWN IN UNAUDITED MONTHLY FINANCIAL STATEMENTS *
PREPARED BY TOPPER

	1968	1969	1970	1971
January	$ (511,000)	$ (535,000)	$ (732,000)	$ (720,180)
February	(959,000)	(1,052,000)	(1,621,000)	(1,115,503)
March	(1,158,000)	(998,000)	(2,047,000)	(398,017)
April	(776,000)	(662,000)	(1,875,000)	(434,213)
May	(660,000)	(533,000)	(1,345,000)	(339,393)
June	40,000	(194,000)	(954,000)	306,541
July	188,000	317,000	(243,000)	119,296
August	236,000	1,594,000	516,000	173,480
September	268,000	2,256,000	168,000	1,472,011
October	36,000	2,400,000	(76,000)	N.A.
November	43,000	1,802,000	189,000	N.A.
December	596,000	2,176,000	353,127	N.A.

* PX 1-5, 399-402, 1069, 1079, 1135-1170.

CBX 164

TOPPER'S NET SALES, YEAR TO DATE,
FOR 1968, 1969, 1970 AND 1971
AS SHOWN IN UNAUDITED MONTHLY FINANCIAL STATEMENTS *
PREPARED BY TOPPER

	1968	1969	1970	1971
January	$ 291,000	$ 41,000	$ 835,000	$ 280,822
February	297,000	46,000	1,213,000	1,045,427
March	975,000	1,558,000	2,103,000	4,900,227
April	3,478,000	4,895,000	6,767,000	8,007,840
May	6,083,000	8,534,000	12,601,000	11,737,205
June	9,972,000	12,911,000	17,607,000	19,312,847
July	13,845,000	17,718,000	24,219,000	22,502,390
August	18,551,000	23,994,000	30,205,000	27,379,547
September	23,073,000	31,154,000	36,854,000	37,778,689
October	27,865,000	40,020,000	43,455,000	N.A.
November	33,175,000	48,897,000	51,704,000	N.A.
December	35,036,000	53,723,000	63,935,619	N.A.

* PX 1-5, 399-402, 1069, 1079, 1135-1170.

TOPPER'S NET INCOME (LOSS) PER MONTH
FROM JANUARY 1970 THROUGH SEPTEMBER 1971
AS SHOWN IN UNAUDITED MONTHLY FINANCIAL STATEMENTS*
PREPARED BY TOPPER

	1970	1971
January	(732,000)	(720,180)
February	(889,000)	(395,322)
March	(693,000)	717,486
April	172,000	(34,952)
May	530,000	94,820
June	391,000	645,934
July	711,000	(187,246)
August	759,000	54,184
September	(348,000)	1,298,532
October	(409,000)	N.A.
November	267,000	N.A.
December	258,458	N.A.

* PX 1-5, 399-402, 1069, 1079, 1161-1170.

CBX 166

(1) TOPPER'S PROJECTED COLLECTIONS, AS SHOWN ON CITIBANK'S EXHIBIT 110, FOR EACH MONTH OF 1970; (2) A CALCULATION OF SUCH PROJECTIONS YEAR TO DATE; (3) TOPPER'S REPORTED COLLECTIONS AS REPORTED ON THE UNAUDITED MONTHLY FINANCIAL STATEMENTS PREPARED BY TOPPER, FOR EACH MONTH OF 1970; (4) A CALCULATION OF SUCH COLLECTIONS YEAR TO DATE; (5) A CALCULATION OF THE PERCENTAGE OF ACTUAL COLLECTIONS YEAR TO DATE TO PROJECTED COLLECTIONS YEAR TO DATE

1970 Month	(1) Projected Monthly Collections	(2) Projected Collections Year to Date	(3) Reported * Monthly Collections	(4) Reported Collections Year to Date	(5) Percent Reported Projected Year to Date
January	$ 9,650,000	$ 9,650,000	$10,450,690	$10,450,690	108%
February	990,000	10,640,000	1,793,841	12,244,531	115%
March	1,080,000	11,720,000	854,023	13,098,554	112%
April	570,000	12,290,000	762,840	13,861,394	113%
May	4,260,000	16,550,000	1,537,008	15,398,402	93%
June	1,900,000	18,450,000	** 2,060,994	17,459,396	95%
July	3,780,000	22,230,000	3,959,900	21,419,296	96%
August	4,210,000	26,440,000	3,815,987	25,235,283	95%

* PX 1069, 1079, 1161-1170.

** Excludes $2,281,475.00 receipts of public offering as shown on Loan Balance page of Loan Status Worksheets.

CBX 167

A 3805

TOPPER'S PROJECTED COLLECTIONS AS SHOWN ON TOPPER'S PROJECTED STATEMENT OF OPERATIONS FOR THE PERIOD ENDING DECEMBER 31, 1971 (PX 6), AND ITS REPORTED COLLECTIONS, AS SHOWN ON THE LOAN BALANCE PAGES OF THE LOAN STATUS WORKSHEETS (PX 333-340) PREPARED BY TOPPER, FOR EACH MONTH OF 1971, TOGETHER WITH YEAR TO DATE CALCULATIONS NOT INCLUDED IN THE ABOVE DOCUMENTS BUT PREPARED FROM SUCH DATA

1971 Month	Projected Monthly Collections	Projected Collections Year to Date	Reported Monthly Collections	Reported Collections Year to Date	Percentage Reported/ Projected Year to Date
January	$10,800,000	$10,800,000	$10,718,984	$10,718,984	99%
February	1,030,000	11,830,000	1,580,397	12,299,381	104%
March	1,240,000	13,070,000	1,190,451	13,489,832	103%
April	1,565,000	14,635,000	3,396,306	16,886,138	115%
May	* 5,495,000	20,130,000	**2,443,148	19,329,286	96%
June	3,775,000	23,905,000	2,160,313	21,489,599	90%
July	4,355,000	28,260,000	2,623,802	24,113,401	85%
August	6,115,000	34,375,000	4,011,527	28,124,928	82%

* Excludes $3,000,000 projected receipts related to anticipated public offering.

** Excludes $6,361,351.50 receipts of public offering as shown on Loan Balance page of Loan Status Worksheets.

TOPPER'S PROJECTED NET SALES, AS SHOWN ON TOPPER'S PROJECTED STATEMENT OF OPERATIONS FOR THE PERIOD ENDING DECEMBER 31, 1971 (PX6), AND ITS NET SALES, AS REPORTED ON THE UNAUDITED FINANCIAL STATEMENTS PREPARED BY TOPPER, FOR EACH MONTH OF 1971, TOGETHER WITH A CALCULATION OF THE PERCENTAGE OF REPORTED NET SALES YEAR TO DATE TO PROJECTED NET SALES YEAR TO DATE

1971 Month	Projected Monthly Net Sales	Projected Net Sales Year to Date	Reported* Net Sales	Reported Net Sales Year to Date	Percentage Reported/ Projected Year to Da
January	$ 100,000	$ 100,000	$ 280,822	$ 280,222	280%
February	800,000	900,000	764,604	1,045,427	116%
March	3,100,000	4,000,000	3,854,800	4,900,227	123%
April	3,600,000	7,600,000	3,107,613	8,007,840	105%
May	4,200,000	11,800,000	3,729,365	11,737,205	99%
June	5,200,000	17,000,000	7,575,642	19,312,847	114%
July	6,200,000	23,200,000	3,189,543	22,502,390	97%
August	7,800,000	31,000,000	4,877,157	27,379,547	88%
September	9,000,000	40,000,000	10,399,142	37,778,689	95%
October	9,300,000	49,300,000	N.A.	N.A.	
November	11,700,000	61,000,000	N.A.	N.A.	
December	7,000,000	68,000,000	N.A.	N.A.	

* PX 1-5, 399-402.

CBX 169

(1) TOPPER'S PROJECTED NET SALES, AS SHOWN ON CITIBANK'S EXHIBIT 110, FOR EACH MONTH OF 1970, (2) A CALCULATION OF SUCH PROJECTED NET SALES YEAR TO DATE; (3) TOPPER'S NET SALES AS REPORTED ON THE UNAUDITED MONTHLY FINANCIAL STATEMENTS PREPARED BY TOPPER, FOR EACH MONTH OF 1970; AND (4) A CALCULATION OF THE PERCENTAGE OF REPORTED NET SALES YEAR TO DATE TO PROJECTED NET SALES YEAR TO DATE

1970 Month	Projected Net Sales	Projected Net Sales Year to Date	Reported* Net Sales	Reported Net Sales Year to Date	Percentage Reported/ Projected Year to Date
January	$1,000,000	$1,000,000	$ 835,000	$ 835,000	84%
February	1,000,000	2,000,000	378,000	1,213,000	61%
March	2,000,000	4,000,000	890,000	2,103,000	53%
April	3,000,000	7,000,000	4,664,000	6,767,000	97%
May	4,000,000	11,000,000	5,834,000	12,601,000	115%
June	6,000,000	17,000,000	5,006,000	17,607,000	104%
July	8,000,000	25,000,000	6,612,000	24,219,000	97%
August	9,000,000	34,000,000	5,986,000	30,205,000	89%
September	10,000,000	44,000,000	6,649,000	36,854,000	84%
October	12,000,000	56,000,000	6,601,000	43,455,000	78%
November	12,000,000	68,000,000	8,249,000	51,704,000	76%
December	5,500,000	73,500,000	14,111,884	63,935,619**	87%

* PX 1069, 1079, 1161-1170.

** This amount differs from the total of the November, 1970 reported net sales year to date and the December, 1970 reported net sales apparently because an attempt was made in the December reported net sales year to date to correct for previous rounding errors in reported net sales.

TOPPER'S ACCOUNTS RECEIVABLE FOR THE MONTHS JANUARY THROUGH AUGUST 1971, PAST-DUE ACCOUNTS RECEIVABLE FOR THE MONTHS JANUARY THROUGH AUGUST 1971, AND A CALCULATION OF THE PERCENTAGE OF PAST-DUES TO TOTAL ACCOUNTS RECEIVABLE FOR EACH SUCH MONTH

1971 Month	Past-Dues*	Accounts Receivable*	Percentage of Past-Dues to Total Accounts Receivable
January	$ 4,154,397	$ 19,714,382	21%
February	4,261,067	21,992,961	19%
March	5,226,806	26,923,848	19%
April	7,591,079	26,252,006	29%
May	7,359,227	26,434,390	28%
June	3,619,746**	30,287,939	12%
July	3,539,782**	32,943,711	11%
August	9,536,812**	33,577,539	28%
September	9,302,602**	32,761,809	28%

* Data taken from daily advance sheets prepared by Citibank (PX 624, 644-647, 1469-1473).

** The past-due figures for June, July, August and September do not include $2 million Topper "redated" receivables, previously classified as past due, which were made eligible by Citibank on June 7, 1971 (resulting in correspondingly lower overadvances). If this $2 million of redated receivables had been considered as past-due during these months, which they were not, the percentage of past-due for August would have been 34%.

CBX 171

TOPPER'S INELIGIBLE ACCOUNTS RECEIVABLE AND TOTAL ACCOUNTS RECEIVABLE FOR THE MONTHS JANUARY THROUGH SEPTEMBER 1971, AND A CALCULATION OF THE PERCENTAGE OF INELIGIBLES TO TOTAL ACCOUNTS RECEIVABLE FOR EACH SUCH MONTH

1971	Total Ineligible Receivables (Including Past-Dues)*	Accounts Receivable*	Percentage of Ineligibles to Total Accounts Receivable
January	$ 8,283,771	$ 19,714,382	42%
February	4,309,030	21,992,961	20%
March	6,387,557	26,923,848	24%
April	9,530,195	26,252,006	36%
May	9,779,158	26,434,390	37%
June	7,711,041	30,287,939	25%
July	9,278,320	32,943,711	28%
August	13,967,480	33,577,539	42%
September	9,440,685	32,761,809	29%

* Data taken from daily advance sheets prepared by Citibank (PX 624, 644-647, 1469-1473).

A 3810

HENSON ASSOCIATES

BOX 5138, GRAND CENTRAL STATION
NEW YORK, N. Y. 10017
TELEPHONE: 559-0810

SECOND REQUEST

DATE DEC 22 1971

Personal Finance
100 Wilson St.
Passaic, NJ.

Gentlemen:

We are examining the books of TOPPER COAT. FORMERLY KNOWN AS TOPPER COAT.

To assist us in verification of the accounts, we would appreciate it if you will please confirm the balance of your account with them as of 11/30/71. Kindly return this letter to us in the self-addressed, stamped envelope enclosed for your convenience.

THIS IS NOT A REQUEST OR DEMAND FOR PAYMENT.

Very truly yours,

HENSON ASSOCIATES

Balance of $ 2423.64 Correct ☑

Incorrect ☐

If incorrect, please list differences below.

The above is correct, open and owing by us; and not subject to offset by notes, claims, contras or other credits, not subject to guaranteed sale, consignment, nor pay upon reorder arrangements.

Finance Inc.
FIRM NAME

By Accts Payable Clerk
TITLE

Date

HA 500 REV 3-69 (PLEASE USE THE REVERSE SIDE FOR REMARKS)

CBX 17

E 1969 REV. 8-69

Postage Will be Paid by Addressee

No Postage Stamp Necessary If Mailed in the United States

A 3011

BUSINESS REPLY MAIL

First Class Permit No. 15208, New York, N. Y.

HENSON ASSOCIATES

P. O. BOX 5138, GRAND CENTRAL STATION

NEW YORK, N. Y. 10017

A 3612

FACTORING & COMMERCIAL

1972 FEB 17 AM 11:05

FIRST NATIONAL CITY
NEW YORK

HENSON ASSOCIATES A 3813

BOX 5138, GRAND CENTRAL STATION
NEW YORK, N. Y. 10017
TELEPHONE: 559-0810

SECOND REQUEST

DATE DEC 8 - 1971

Gentlemen:

We are examining the books of

TOPPER CORP. FORMERLY DELUXE TOPPER CORP.

To assist us in verification of the accounts, we would appreciate it if you will please confirm the balance of your account with them as of _____. Kindly return this letter to us in the self-addressed, stamped envelope enclosed for your convenience.

THIS IS NOT A REQUEST OR DEMAND FOR PAYMENT.

Very truly yours,

HENSON ASSOCIATES

Balance of $ 2423.64 Correct ☐

Incorrect ☐

If incorrect, please list differences below.

The above is correct, open and owing by us; and not subject to offset by notes, claims, contras or other credits, not subject to guaranteed sale, consignment, nor pay upon reorder arrangements.

_____
FIRM NAME

By _____
TITLE

Date _____

HA 500 REV. 3 69 (PLEASE USE THE REVERSE SIDE FOR REMARKS)

Heard on the Street

A 3814

By DAN DORFMAN

The stock market has been suffering from indigestion for some time now, but you wouldn't know that if you happened to be a shareholder in Topper Corp., a recent entry on the American Stock Exchange.

Despite erratic results and a balance sheet that is rated by several analysts as far from the strongest, the shares of this toy company have been sizzling on brisk volume. The issue, which jumped about 22% last week and is up more than 40% in approximately the past four months, has dotted the American exchange's active roster for six consecutive sessions. After hitting a 1971 high of 19¾ last Friday, more than double its year's low over the counter of 9¼, the stock closed yesterday at 18¼, down 1⅛. Its turnover of 39,100 shares placed it first on the active list.

The chief reason for Wall Street's enthusiasm is a tie-in with the widely acclaimed children's educational television show, Sesame Street. In March, the company entered into a royalty agreement with the program's producer, Children's Television Workshop, whereby Topper will produce a line of products under the Sesame Street name. The two will share the profits on a 50-50 basis.

Accompanying the rise in the stock have been increasingly rosy earnings estimates from Wall Street, some of which even Topper's management characterizes as "ridiculous." And in the minds of some analysts, an affiliation with Sesame Street may well have smitten some investors to the point where they're overlooking several obvious uncertainties.

It's these uncertainties, for example, that have led one toy industrial specialist, William D. Schwartz, vice president of Burnham & Co., to advise clients to avoid any new purchases of the stock. He isn't alone in his thinking.

While Mr. Schwartz thinks the issue can be held as a "speculation" based on its momentum, he questions its investment merits on these counts:

—The unpredictability of Topper's frequently volatile non-Sesame Street business ($84 million in sales last year), which Mr. Schwartz thinks is as likely as not to be soft this year. It's noted that Topper products, in the past, have had short "life cycles."

—The tie-in with Sesame Street in the toy sector isn't exclusive, and it's likely that other toy makers will be licensed to produce Sesame Street products.

—The company has sold a lot of equity in the past 1½ years and is likely to go into the equity market again to finance its expansion. Such a move would represent potential dilution to per-share earnings.

Also citing the fierce competition in the preschool toy field, Mr. Schwartz estimates 1971 net at about unchanged or slightly higher than 1970's 91 cents a share from continuing operations. As for 1972, he sees a "moderate to good increase."

Oppenheimer & Co.'s Eugene Glazer says "Sesame Street excites me, but Topper's balance sheet doesn't." Using figures as of year-end 1970, prior to a stock offering last April, Mr. Glazer notes that the ratio of assets to liabilities—1.2 to 1—wasn't strong, with $20 million of the $35 million in liabilities consisting of current payable bank loans. He also observes that about $14 million of the company's volume last year came from customers who were given five to eight months to pay their bills. In other words, he said, customers were using Topper to finance their business.

Asked about the balance sheet, Henry Orenstein, Topper's president, says "from being terribly undercapitalized in the past, we're improving our financial position." Another company official adds that Topper has a tentative commitment from an institutional investor for $7 million in nonsubordinated long-term financing. He further notes that equity financing—in the form of about $5 million of convertible subordinated debentures—also is being discussed with some institutional investors.

At least part of the recent enthusiasm for Topper's shares is attributed to rumors that Argus Research Corp.'s special situation department is, as one analyst put it, "hot on the stock and pushing it."

But a check with Joseph McAlinden, head of the department, finds it isn't so. He says Argus did recommend it in mid-July at slightly under $16. But it placed a buy limit at $17.50 and currently views the issue as a hold for the intermediate term (six to nine months), he reports.

The analyst is projecting 1971 net of 80 cents a share on volume of $72 million. He sees a further rise to about $1.40 a share next year on sales of about $90 million. As for the Sesame Street tie-in—products will begin to be shipped in about five weeks—Mr. McAlinden sees a contribution of $5 million in sales this year and between $15 million and $20 million in 1972.

Mr. McAlinden sees net benefiting from elimination in October of the amortization of old tooling costs, which Topper has been writing off at the rate of about $1,450,000 annually, pretax, over the last five years. He also looks for some new product lines, including Sesame Street products, to more than offset the "substantial decline" he expects this year in the Johnny Lightning line of miniature racing cars.

While rating the stock a hold, the analyst nonetheless stresses that "it isn't for widows and orphans." Says Mr. McAlinden: "A lot of things could go wrong." He cites, among other things, the possibility of a lengthy dock strike on the East Coast (Topper's imports are shipped there), the uncertainty of how the new products will perform and the ever-present possibility that such Topper product lines as Johnny Lightning and the Dawn dolls mightn't live up to his sales expectations.

A check with the people producing Sesame Street finds that they're in active negotiations with other toy makers involving additional licenses. A spokesman says it's possible other manufacturers will be producing toys and records with the Sesame Street name before year-end. Licenses already have been granted to two other concerns—Western Publishing, traded over the counter, and Colorforms, which is privately held.

Topper's Mr. Orenstein says he can't make any comment on earnings as the concern is in registration with a proposed sale of 425,000 shares, the bulk of which has already been sold. He does say, though, that the response to the Topper lines of Sesame Street products has been "most gratifying."

Wall St. Journal
8/10/71

PX Richards 1

A 3815

PRIVILEDGED and CONFIDENTIAL:
For Use of Counsel Only

February 16, 1972

HS-Mole 63 EJ
am 2/4/76

Memorandum
Prepared at the request of, and for,
Winthrop, Stimson, Putnam and Roberts

Topper Corporation

I talked with Lester Garvin, Senior Vice President, and Mr. Walter Jeffers of the First National City Bank. They stated that they had considered our point that Mr. Waldman had given us substantially less than full disclosure at the end of August. They pointed out that the Topper loan was in the factoring department and was on a secured basis and therefore we must have known that this was a marginal type of credit. They feel that under the circumstances the bank had acted properly and, therefore, they did not feel any responsibility.

I stated in turn that we had known that this account was handled by the factoring division and contained more than average risk but we had felt that this was compensated for by the conversion privilege. However, when Mr. Waldman stated that "there are no problems at the moment nor did he anticipate any," the only inference that we could draw was that the company was in a healthy financial condition at the time. I repeated that I do not believe that Mr. Waldman had any inkling that the company would get into difficulties within three months time, but I did not believe that he had been candid with Mr. Thompson, since it was clear from figures obtained later that anyone auditing the receivables would have known that there had been a sharp rise in ineligible accounts.

I thanked them for giving consideration to our problem. In leaving I mentioned that this was the second instance when we had faulty information from their bank. The first time was in August 1960 when one of their vice presidents had recommended the management of Trico Production Company with whom we were negotiating a production payment.

Harvey Mole

PRIVILEDGED and CONFIDENTIAL:
For Use of Counsel Only

A-3816

PRIVILEDGED and CONFIDENTIAL
For Use of Counsel Only

[illegible] Left the report [illegible] and for,
Winthrop, Stimson, Putnam and Roberts.

August 10, 1972

HS - Note
Ex G14 ID
am
2/4/74

Topper Corporation

Topper's prospects have continued to deteriorate notwithstanding new senior secured and and a creditor agreement reached in March which permitted the company to operate. We were told at an August 2 last meeting of Convertible Noteholders that the banks were no longer permitting Topper to use receivable collections to pay corporate overhead and finance Sesame Street toy production. To avoid an immediate bankruptcy, Topper entered into an exclusive distribution arrangement with Gabriel Industries to sell Sesame Street merchandise on terms quite favorable to that firm. Currently, Topper has no sales force, production has stopped, and the most desirable parts of its inventory have been sold. The company can now be considered a liquidation of assets outside of bankruptcy.

The prime beneficiaries of this liquidation are the secured lenders comprising the First National City Bank, Manufacturers Hanover, and Ford Motor Credit. All collections are funneled through the Bank, which manages the account for the bank group, and it controls what amounts, if any, are retained by the company to manufacture Sesame Street merchandise. At the end of July, the bank group was owed $14.5 million compared with about $21.0 million at the time of our credit check with FMCC in August 1971 and $17.0 million in September 1971 after having used the proceeds from our financing to reduce their indebtedness.

The secured creditors received $500,000 from the Gabriel Industries arrangement in early August and will probably receive an additional $500,000 to $1,000,000 by September 2, 1972. Henry Clarke, who replaced Henry Orenstein as Topper's chief executive in March, indicated that he projects a $7.2 million loan balance with secured creditors at year-end. He told the Convertible Noteholders that the banks might then settle such a balance at 20¢ to 50¢ on the dollar.

Mr. Clarke hopes to effect a merger with Gabriel Industries at year-end. It seems clear, however, that Topper is no longer an operating company and that Gabriel can negotiate virtually any deal it wants now that the banks have begun their undeclared liquidation of Topper.

Mr. Clarke, who is a former officer of CIT-Hayden Stone, has worked hard to settle customer disputes over receivables and returns. He has also reduced corporate overhead and payroll costs and attempted to work off Topper's inventories on an orderly basis. Even so, his efforts to sell sufficient goods to support the company financially on a lower sales volume have failed. The credit terms imposed by the banks have caused dealers to hold back orders for Sesame Street and many potential buyers had unsettled disputes with Topper over balances. Moreover, Mr. Clarke has had no previous experience in managing a toy company and does not have established trade relationships with important chains or distributors.

Topper's problems have been compounded by the current SEC investigation of its disclosure practices and the American Stock Exchange's investigation of CIT's trading activity prior to the public announcement of the company's problems in December 1971. Seven class action suits have also been filed by shareholders against Topper and its former executives, thus adding to the problems of arranging a merger.

PRIVILEDGED and CONFIDENTIAL
For Use of Counsel Only

Topper Corporation PRIVILEDGED and CONFIDENTIAL: August 10, 1972
For Use of Counsel Only

As a further negative, there are no audited figures for Topper since December 31, 1970. Arthur Young & Co., which audited the 1970 Annual Report, is being used and is said to be very cautious in certifying Topper's subsequent results. Arthur Young has told the company that it is impossible to produce an audited 1971 year-end statement. We were promised audited figures as of May 31, 1972 by the end of July, but they were not forthcoming. We do know, however, that Topper has a substantial deficit net worth without knowing its size.

In view of these developments, we should make a decision now whether to take the $3.0 million Topper loss or try to negotiate a partial recovery from FNCB. If the latter course is to be followed, it is important to do so now, since the present format of liquidation is preferable from the bank's point of view to the expensive and difficult time it would have under a receivership arrangement. Thus, if FNCB is ever going to compromise our claim, the time is probably now.

In approaching FNCB, we would probably have to be prepared to force a bankruptcy for Topper or institute a lawsuit against FNCB. From the Pension Fund's standpoint, these steps seem warranted in view of the bank's misleading information at the time of our credit check of August 1971, and the fact that the secured creditors' position was substantially improved with the $5.25 million proceeds of the convertible subordinated note financing. It will be recalled that when we complained to the senior management of FNCB in January about the misleading information we had obtained, we were told that we should have realized the Topper loan had risk because it was handled by the Factoring Division. This, of course, was no answer at all.

Henry L. Thompson

A 3818

PRIVILEDGED and CONFIDENTIAL
For Use of Counsel Only

Prepared at the request of, and for,
Winthrop, Stimson, Putnam and Roberts

August 16, 1972

HS-Mole
Ex 615 ID
am 2/4/76

Memorandum to the Committee on Finance

Topper Corporation

Topper's prospects have continued to deteriorate notwithstanding new senior management and a creditor agreement reached in March which permitted the company to operate. We were told at an August first meeting of Convertible Noteholders that the banks were no longer permitting Topper to use receivable collections to pay corporate overhead and finance Sesame Street toy production. To avoid an immediate bankruptcy, Topper entered into an exclusive distribution arrangement with Gabriel Industries to sell Sesame Street merchandise on terms quite favorable to that firm. Currently, Topper has no sales force, production has stopped, and the most desirable parts of its inventory have been sold. The company now can be considered a liquidation of assets outside of bankruptcy.

Henry Clarke, a former officer of CBWL-Hayden Stone, who has been chief executive of Topper since January, has worked hard to settle customer disputes over receivables and returns. He has also reduced corporate overhead and payroll costs and attempted to work off Topper's inventories on an orderly basis. Even so, his efforts to sell sufficient goods to support the company financially on a lower sales volume have failed. The credit terms imposed by the banks have caused dealers to hold back orders for Sesame Street and many potential buyers had unsettled disputes with Topper over balances. Moreover, Mr. Clarke has had no previous experience in managing a toy company and does not have established trade relationships with important chains or distributors.

The secured lenders comprising First National City Bank, Manufacturers Hanover, and Ford Motor Credit are the prime beneficiaries of the liquidation of Topper. After having reviewed the company's very poor July sales and collections, FNCB, which manages the account and controls all cash receipts and disbursements, refused to advance further funds to manufacture Sesame Street merchandise. At the end of July, the bank group was owed $14.5 million compared with about $21.0 mi at the time of our credit check with FNCB in August 1971 and $17.0 million after having used the proceeds from our financing to reduce indebtedness. Under the arrangement with Gabriel Industries, the bank group received $500,000 from that company and will probably receive another $500,000 to $1,000,000 by September 5, 197 Mr. Clarke indicated that he may be able to reduce the secured debt to $7.2 millio by year-end. He told the Convertible Noteholders that the banks might then settle such a balance at 20¢ to 50¢ on the dollar.

Mr. Clarke hopes to effect a merger with Gabriel Industries at year-end. It seems clear, however, that Topper is no longer an operating company and that Gabriel can negotiate virtually any deal it wants now that the banks have begun their undeclared liquidation of Topper. In this respect, Gabriel did not pay Topper anything for the Sesame Street franchise and its only risk in the present arrangement is that it cannot dispose of the moderate inventory of finished Sesame Street toys that it agreed to purchase, initially.

A 3819

PRIVILEGED and CONFIDENT
For Use of Counsel Only

Topper Corporation

August 16, 1972

Topper's problems have been compounded by the current SEC investigation of its disclosure practices and the American Stock Exchange's investigation of CDWL's trading activity prior to the public announcement of the company's problems in December 1971. Seven class action suits have also been filed by shareholders against Topper and its former executives, thus adding to the problems of arranging a merger.

As a further negative, there are no audited figures for Topper since December 31, 1970. Arthur Young & Co., which auditored the 1970 Annual Report, is being sued and is said to be very cautious in certifying Topper's subsequent results. Arthur Young has told the company that it is impossible to produce an audited 1971 year-end statement. We were promised audited figures as of May 31, 1972 by the end of July, but they were not forthcoming. We do know, however, that Topper has a substantial deficit net worth without knowing its size.

In view of the present status of Topper, we have reviewed our legal position with Winthrop, Stimson, Putnam and Roberts with respect to instituting an action against FNCB for its failure to provide full disclosure in our credit check and the subsequent use of our money to reduce its loan balance. We have been told that litigation against FNCB could last for years and that it would be expensive. Moreover, our case would be difficult to prove since our evidence would have to be supplemented by additional facts brought out in the pre-trial discovery process and through cross-examination. Accordingly, Winthrop, Stimson believes that the outcome of litigation against FNCB is too uncertain to justify the time and expense involved. Our attorneys, however, believe that we can institute suits against Arthur Young and CDWL-Hayden with much greater prospect of success but that we may gain by waiting until the present Arthur Young suit is further along in the court.

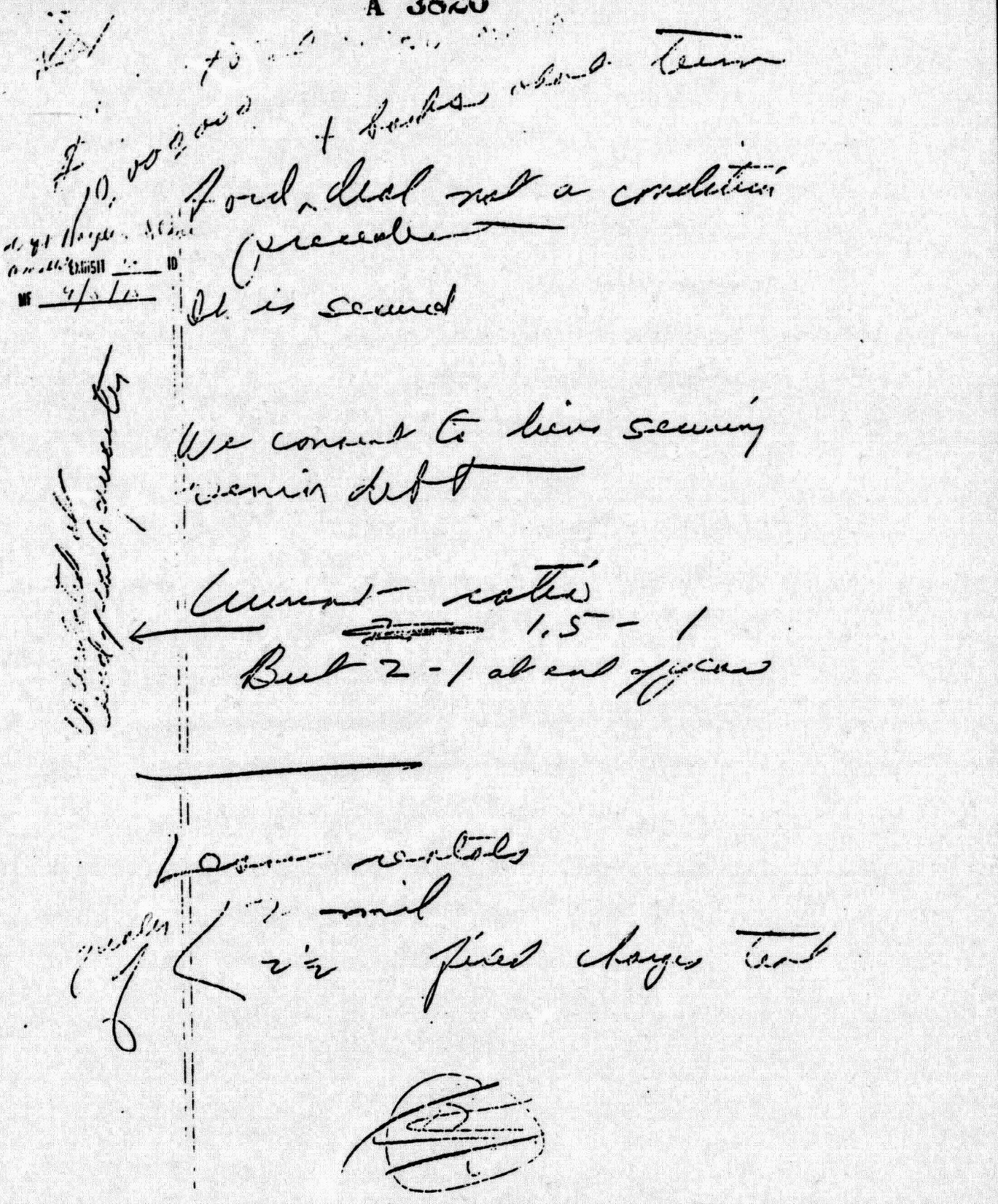
On this basis, while we may eventually realize a partial recovery in Topper through litigation or a merger, we could suffer a nearly complete loss of the $3.0 million now invested in this company. Accordingly, it is recommended that the book value of our Topper subordinated convertible debentures now be written down to $1.

Henry L. Thompson

Henry L. Thompson

PRIVILEDGED and CONFIDENT:
For Use of Counsel Only

A 3820



HSX Ramseur 6

A 3822

Steel	3
Can Railroad	1
Am National (Galveston)	1
4 Pension funds 1/4 mil each	1
(illegible)	1

2 free rights

40 70 [illegible]
not on [illegible] 40 70 but
no less than _____ [illegible]

In anti - [illegible] [illegible]
[illegible]

A 3823

Retained by Hayden Stone

EXHIBIT 18

DATE 4/6/75

AMENDMENT dated as of September 17, 1971, among FIRST NATIONAL CITY BANK, a national banking corporation (hereinafter called FIRST NATIONAL), MANUFACTURERS HANOVER TRUST COMPANY, a New York banking corporation (hereinafter called MANUFACTURERS) (FIRST NATIONAL and MANUFACTURERS being hereinafter sometimes collectively called the Banks), FORD MOTOR CREDIT COMPANY, a Delaware corporation (hereinafter called FMCC), and TOPPER CORPORATION (formerly DeLuxe Topper Corporation), a Delaware corporation (hereinafter called DLT), amending the Agreement dated October 4, 1966, as heretofore amended (hereinafter called the Financing Agreement), among FIRST NATIONAL, MANUFACTURERS and DLT.

Under the Financing Agreement as in effect immediately prior to the date hereof, the Banks have agreed to make loans (hereinafter called the Bank Loans) from time to time to DLT in an aggregate principal amount not to exceed $21,000,000.00 secured by receivables, inventory and other collateral owned by DLT (including an insurance policy or policies on the life of Henry Orenstein).

DLT has requested FMCC to make a loan to DLT in the principal amount of $7,000,000.00 and FMCC is willing to make such loan on the terms and conditions hereinafter provided, including provisions intended to give FMCC, as security for such loan, a security interest in the collateral securing the Bank Loans.

The Banks are willing to enter into this Amendment in order to induce FMCC to make such loan.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter contained, the parties hereto hereby agree as follows:

1. The terms used herein shall have the same meanings as in the Financing Agreement, except as specifically defined in this Amendment.

2. FMCC agrees to make a loan to DLT on the date hereof in the principal amount of $7,000,000.00 (hereinafter called the FMCC Loan), to be evidenced by a promissory note of DLT, payable to the order of FMCC, in the form of the promissory note attached hereto as Exhibit A, and subject to the terms and provisions set forth in such promissory note. Promptly after receiving said $7,000,000.00 DLT shall turn said moneys over to the Banks in reduction of the amount owing to them under the Financing Agreement.

3. As security for the payment in full of the FMCC Loan and all Obligations relating thereto, DLT hereby grants to FMCC a security interest in the Receivables, Inventory, machinery, equipment and all other personal property, tangible and intangible (including the insurance policy or policies on the life of Henry Orenstein referred to in the Amendment to the Financing Agreement dated February 16, 1967), referred to in the Financing Agreement as security for the Bank Loans (hereinafter collectively called the Collateral). The Banks agree that the FMCC Loan and the Bank Loans shall be secured pari passu by the Collateral, in proportion to the unpaid principal balances outstanding from time to time under the FMCC Loan and the Bank Loans.

4. FMCC shall have all the rights of the Banks under the Financing Agreement, except for rights of the Banks provided in

paragraph 8 thereof (relating to the finance charge of the Banks), paragraph 16 (relating to minimum compensation for the Banks), and that portion of paragraph 10 providing that all Obligations shall be payable on demand, with the same force and effect as if FMCC were one of the Banks referred to therein.

5. DLT hereby confirms the representations and warranties set forth in paragraph 2 of the Financing Agreement, as of the date hereof, for the benefit of the Banks and FMCC, with the same force and effect as if such representations and warranties were set forth herein.

6. The formula for advances under the Bank Loans, as set forth in paragraph 7 of the Financing Agreement, as heretofore amended, is hereby amended in its entirety to read as follows:

"The Banks shall make advances to DLT under the Bank Loans, at their discretion, in an aggregate amount at any time outstanding not to exceed the amount determined by subtracting the then outstanding principal balance of the FMCC Loan from the Borrowing Base (determined as of such time); provided, however, that the Banks shall have the right, in their sole discretion, to make overadvances to DLT not to exceed an aggregate amount at any time outstanding equal to 20% of the face amount of Eligible Receivables (determined as of such time).

"The term "Borrowing Base" as used herein, shall mean an amount determined as of any time equal to the sum of the following:

(a) 80% of the face amount of Receivables otherwise determined by the Banks to be eligible and then included in the Collateral

representing merchandise sold and actually delivered on terms of sale not exceeding 120 days, after deducting from such face amount applicable discounts and such reserves as the Banks shall deem proper and necessary (herein called Eligible Receivables);

(b) 50% of the cost of merchandise sold by DLT under "Bill and Hold" arrangements; provided, however, that the outstanding amounts included in the Borrowing Base with respect to such Bill and Hold arrangements shall not at any time exceed $1,000,000 and the terms of sale thereunder shall not exceed 180 days; and

(c) 50% of the face amount of Receivables as to which DLT has granted to the purchaser an extension of time for payment from the original invoice payment date (hereinafter called Redated Receivables); provided, however, that the outstanding amounts of Redated Receivables included in the Borrowing Base shall not at any time exceed $1,000,000 and such extension of time in respect of any Redated Receivables shall not exceed 180 days from such original invoice payment date (except that Redated Receivables otherwise includible in the Borrowing Base shall continue to be so includible through September 30, 1971 notwithstanding the fact that they may have been subject to such an extension of time in excess of 180 days)."

7. The Banks hereby confirm their undertaking to continue to make loans to DLT under the Financing Agreement in an aggregate

principal amount at any one time outstanding not to exceed $16,000,000.00 through January 31, 1972, at which time the Banks shall determine the total of the financing accommodations to be made available to DLT for the ensuing year; provided, however, that the Banks shall not increase the maximum amount to be loaned above $16,000,000.00 outstanding at any time without the prior agreement of FMCC.

8. DLT shall not incur or permit to exist any indebtedness (other than the Bank Loans and the FMCC Loan) whether for borrowed money, under title retention arrangements or leases or otherwise, secured in any way by the Collateral, except for secured borrowings incurred for the purpose of providing compensating balances and except as permitted by paragraph 3 of the Financing Agreement and by the terms of the letter agreement dated July 17, 1970, as supplemented by letter agreement of December 31, 1970, among DLT, FIRST NATIONAL and MANUFACTURERS.

9. Each of the following events, if not cured within 30 days, shall constitute an additional event of default under paragraph 13 of the Financing Agreement with respect to the Bank Loans and the FMCC Loan:

(a) If the outstanding principal balances of the indebtedness secured by the Collateral shall in the aggregate at any time exceed the limitations hereinabove provided for;

(b) If the outstanding principal balances of the Bank Loans shall at any time exceed the applicable limit provided in paragraph 6 of this Amendment.

10. FMCC hereby appoints FIRST NATIONAL as its agent to accept and perfect a security interest in the Collateral and otherwise to deal

with the Collateral, and to exercise the rights of FMCC hereunder and under the Financing Agreement. With respect to the FMCC Loan, DLT is authorized to deal with FIRST NATIONAL in the manner provided in the Financing Agreement. At any time after the moneys due the Banks under the Financing Agreement shall have been completely paid FMCC shall have the right to revoke said agency by serving written notice of such revocation upon the Banks and DLT.

11. In the event that the Banks shall at any time decide not to extend the term of the Financing Agreement beyond January 31, 1972 or any subsequent extended termination date thereof, FIRST NATIONAL shall give FMCC and DLT prompt notice of such decision. If, within 45 days following any such decision, DLT shall fail to obtain financing from another financial institution on terms and in an amount comparable to the terms and amount provided in the Financing Agreement, and FMCC shall give DLT written notice of such failure, such failure shall constitute an additional event of default under paragraph 13 of the Financing Agreement with respect to the Bank Loans and the FMCC Loan.

12. DLT shall not refer to FMCC, FORD MOTOR COMPANY or any of their affiliates in connection with any of its advertising or sales promotion activities.

13. DLT shall reimburse FMCC for all its out-of-pocket expenses, including fees and disbursements of special counsel for FMCC, if any, in an amount not to exceed $5,000.00.

14. The provisions of the Financing Agreement shall remain in full force and effect until all of the Obligations (including the FMCC Loan and the Bank Loans) shall have been paid in full.

15. Except as amended hereby, the Financing Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

Attest:

_____
Secretary

FIRST NATIONAL CITY BANK

By _____
Vice President

~~Attest:~~

~~Secretary~~

MANUFACTURERS HANOVER TRUST COMPANY

By _____
Vice President

Attest:

_____
Secretary

FORD MOTOR CREDIT COMPANY

By _____
Loan Officer

Attest:

_____
Secretary

TOPPER CORPORATION

By _____
Executive Vice President

The undersigned, which are sub-participants in FIRST NATIONAL's participation in the Bank Loans pursuant to a Letter Agreement dated April 1, 1968, hereby consent to the foregoing Amendment and agree to be bound by the terms thereof.

Dated: September , 1971.

FIDELITY UNION TRUST COMPANY

By _____
Vice President

MERCANTILE BANK OF CANADA

By _____
Vice President

A 3830

Exhibit A

TOPPER CORPORATION

$7,000,000 PROMISSORY NOTE New York, New York
September 17, 1971

FOR VALUE RECEIVED, the undersigned, Topper Corporation, a Delaware corporation (hereinafter called the Company), promises to pay to Ford Motor Credit Company, a Delaware corporation (hereinafter called FMCC), or order, at its office at The American Road, Dearborn, Michigan, or at such other place as the holder hereof may from time to time designate in writing, in lawful money of the United States of America, the principal sum of $7,000,000 on December 31, 1976, or sooner as hereinafter provided, and interest (computed on the basis of the actual number of days elapsed over a year of 360 days) from the date hereof, in like money, on the principal balance remaining unpaid from time to time at a variable rate equal to the Prevailing Prime Rate (as hereinafter defined) in effect from time to time plus 5½% per annum, but in no event less than 11½% per annum or more than 14% per annum, payable on the last day of each March, June, September and December in each year, commencing September 30, 1971, until the unpaid principal balance hereof shall be paid in full (whether before or after maturity).

As used herein, Prevailing Prime Rate shall mean the highest of the respective rates in effect from time to time at First National City Bank, Manufacturers Hanover Trust Company, Continental Illinois National Bank and Trust Company of Chicago and Bank of America National Trust & Savings Association for new 90-day, unsecured loans, to substantial and responsible commercial borrowers. For the purpose of computing interest, the Prevailing Prime Rate in effect on the first day of each month shall be deemed to be the rate in effect throughout such month.

The Company shall make a payment of principal of this Note in the amount of $875,000 on each quarterly interest payment date commencing March 31, 1975.

This Note may be prepaid in whole (but not in part) at any time on or after December 31, 1972, upon not less than 30 days prior written notice from the Company to the holder hereof specifying the date fixed for prepayment. Any such prepayment shall be accompanied by accrued interest to the date fixed for prepayment together with a prepayment premium (representing a percentage of the principal amount prepaid) determined as follows:

Period in which Prepaid	Prepayment Premium
December 31, 1972 through December 30, 1973	9%
December 31, 1973 through December 30, 1974	6%
December 31, 1974 through December 30, 1975	3%

After December 30, 1975, this Note may be so prepaid without premium.

This Note is secured by an agreement dated October 4, 1966, as amended, among the Company, FMCC, First National City Bank and Manufacturers Hanover Trust Company (hereinafter called the Financing Agreement) and is entitled to the benefits thereof.

If an event of default (or an event which with the giving of notice would become an event of default) shall occur and be continuing under the Financing Agreement or under any other agreement relating to the borrowing of money to which the Company is a party, or if the Company shall fail to pay any instalment of principal or interest on this Note when and as the same shall become due and payable, the holder hereof, at its option, may by written notice to the Company declare the unpaid principal balance of this Note, and interest thereon, to be immediately due and payable, without

presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

This Note shall be deemed to have been made under, and shall be governed by, the laws of the State of New York in all respects, including matters of construction, validity and performance.

Attest:

TOPPER CORPORATION

By_____
President

_____
Secretary

HSX FORD Exh. 4

A 3833

Ford Motor Credit Company

To: Members of the Finance Committee

Subject: CIR Financing Proposal - New Credit
Borrower: Topper Corporation
Elizabeth, New Jersey

FMCC proposes to lend $7 million repayable in equal quarterly instalments commencing March 31, 1975 through December 31, 1976. Initially FMCC's $7 million loan, together with loans from banks under short-term loan commitments aggregating $16 million (for a total credit of $23 million), will be secured by accounts receivable, inventories, fixed assets, and assignment of face value of life insurance. Loans up to $23 million, however, will not exceed 80% of eligible accounts receivable. FMCC would agree to release collateral security under certain conditions outlined in Schedule I. Interest would be at a floating rate of 5½% over prime with a floor of 5½% over prime on date commitment is made and a ceiling of 14%. A commitment fee of $50,000 would be earned upon approval. The proposed financing would produce an effective annual yield [illegible] and an estimated after-tax return on equity of

The primary risks in the proposed financing relate to: (a) Topper Corporation's record of profitable operations covers a brief period of three years--1968-1970, (b) its business is highly competitive and seasonal, (c) sales and profitability are dependent on continuing introduction and acceptance of new products, and (d) products manufactured and marketed are dependent on foreign sources, with approximately 55% of current purchases imported principally from Hong Kong and Japan. However, FMCC believes that management is capable and that the injection in May, 1971 of $6,356,000 in cash representing net proceeds from the sale of 658,000 shares of common stock has strengthened the Company's overall financial condition. FMCC further believes that the requirements that must be met in order to release collateral security and place loan on an unsecured basis, justify such a commitment.

Recommendations and Concurrences	CIR Credit Committee	Date	Finance Committee	Date
B. L. Lavery	R. S. Olson	7/8/71	R. S. Olson	7/8/71
Wm. O. Duncan	J. C. Doan	7/8/71	J. C. Doan	7/8/71
R. S. Cornwall	J. A. Zanna	7/8	John Bagan	7/8/71
J. A. Zanna	W. H. Quinn	7/8	Committee approval subject to follo	
Sam D. Sargent 7-6-71	R. S. Cornwall	7/8	(a) a default under Bank loan will a default under FMCC's loan and	
LEGAL			(b) Though FMCC's commitment to lend will be firm at this time, t Finance Committee is to review Borrower's condition and the fi	

SUMMARY OF PROPOSED CIR TRANSACTION

PARTIES

Borrower: Topper Corporation

Guarantor: None

Participants: None

TRANSACTION

Purpose: To finance anticipated expanded sales volume

Amount: New: $7,000,000 Present: - 0 - Total: $7,000,000

Term and Amortization: 64 months. Interest payable quarterly in arrears on the last day of the months of March, June, September and December. Principal payable in equal quarterly instalments of $875,000, commencing March 31, 1975, on the last day of the months of March, June, September and December, with payment in full no later than December 31, 1976.

Type: Direct Loan.

Collateral: The FMCC proposed loan of $7 million and loans up to $16 million under a revolving credit agreement with banks headed by First National City Bank, New York, will share on a pro rata basis in a collateral security pool consisting of accounts receivable, inventories, fixed assets, and assignment of insurance on the life of Henry Orenstein, having a face value of $4 million, but with combined loans not to exceed 80% of eligible accounts receivable.

Collateral security will be released when Borrower meets all of the following requirements:

(1) Net profit, before taxes and depreciation on tooling acquired on October 4, 1966, earned in the immediate preceding fiscal year is at least:

(a) $6.5 million. In addition, such net profit, when added to actual interest incurred, is at least 3.5 times coverage of such interest, or
(b) $5 million if an additional $5 million of equity capital or capital junior to the proposed loan is injected.

(2) Net working capital shall not be less than $20 million.

(3) Net tangible assets shall be not less than 3.0 times total funded indebtedness.

(4) Borrower shall have been free from current bank borrowings for no less than 10 consecutive days during the three months preceding the proposed termination of the security interest.

(5) No other secured borrowings from banks and/or others shall exist at the time of termination of the security interest except for outstanding purchase money mortgages.

A 3835

INCOME:

Rate: Floating rate of 5-1/2% over the Prevailing Prime Rate (highest of the prime rates at First National City Bank, Manufacturers Hanover Trust Company, Bank of America and Continental Illinois) with a floor of the Prevailing Prime Rate at the closing plus 5-1/2% and a ceiling of 14% based on a 360-day year.

Commitment Fee: $50,000 nonrefundable if this loan is approved.

Deposit: $50,000 refundable at the rate of $7,142.85 for each $1 million of loan that is funded.

Prepayment Fee: No prepayment would be permitted prior to December 31, 1972. Prepayment in full only, upon 30 days' written notice as follows:

Period	Fee
12/31/72 to 12/31/73	9%
12/31/73 to 12/31/74	6%
12/31/74 to 12/31/75	3%
12/31/75 to 12/31/76	None

Other: None

Effective Annual Yield:

Est. Return on Equity (After Taxes):

Repayment Source: Interest and principal payments would come from Borrowers' cash flow.

OTHER TERMS AND CONDITIONS:

1. The loan would be funded on or before 8/31/71.
2. All documentation to be approved by FMCC Legal Office.
3. Borrower shall not obtain loans, other than under revolving credit agreement with banks, relating to FMCC's security interest in accounts receivable, inventories, fixed assets and assignment of face value of life insurance.
4. Borrower shall not use FMCC's name in connection with any of its promotional or advertising activities.
5. FMCC shall have the right to make periodic audits of the books and records at its discret
6. Borrower to furnish FMCC (a) quarterly consolidated financial statements within 60 days after the end of each fiscal quarter certified by its principal financial officer (b) annual audited consolidated financial statements within 120 days after the end of each fiscal year certified by independent certified public accountants selected by Borrower and acceptable to FMCC and (c) such other information as FMCC might from time to time require, including copies of monthly consolidated financial statements, and monthly accounts receivable aging reports.
7. All out-of-pocket expenses up to $5,000 in connection with the loan closing shall be paid by Borrower.
8. Substance and form of revolving credit agreement with banks shall be acceptable to FMCC.

A 3836

9. There will be no material adverse change in Borrower's financial or other condition or the security for the loan between the date of any commitment to make the loan and the closing date.

10. On release of collateral as provided above, the loan agreement between FMCC and Borrower will be expanded to include other affirmative and negative covenants, satisfactory to FMCC including but not limited to the following:

(a) Limitations on other borrowings and pledge of assets.

(b) Limitations on debt as related to net tangible assets.

(c) Limitations on bank borrowings.

(d) Maintenance of minimum consolidated working capital.

(e) Limitations on cash dividends and investments.

(f) Limitations with respect to sale of assets, mergers, and consolidations.

(g) Limitations with respect to lease rental obligations.

(h) Prohibition on sale-leasebacks.

(i) Provisions with respect to permissible subsidiary transactions.

Proposed by: R. G. Pompea
R. G. Pompea

Prepared by: D. W. Ellis
D. W. Ellis

Reviewed by: W. F. Finan
W. F. Finan

History and Financial Comments
Borrower: Topper Corporation

History

The company is an outgrowth of a business originally founded in 1951 by Marrius Orenstein and his nephew, Henry, to manufacture and market toys. In 1960, the Orensteins sold their company to the Philadelphia and Reading Corporation for $2.3 million cash. In addition, they agreed to manage the new Philadelphia and Reading subsidiary for a 50% interest in profits during the 1961 thru 1969 period. When the parent company decided to sell its toy subsidiary in 1966, the Orensteins formed the Topper Corporation (incorporated in Delaware) which acquired the assets and assumed the liabilities of the Philadelphia and Reading toy subsidiary. Said assets and liabilities were obtained for $49 million which was paid as shown below. The schedule also includes the debts that were forgiven by Philadelphia and Reading as part of a plan to retain bank financing in 1968.

$(000)

	Purchase Price	Effective Purchase Price	Amount Forgiven
Cash	$22,000	$22,000	-
Subordinated Notes - Short Term	8,000	5,500	$ 2,500
Subordinated Notes - Long Term	19,000	-	19,000
	$49,000	$27,500	$21,500
			699
Net Amount of Interest Forgiven			$22,199

Of the $22.2 million forgiven $19 million was used to wash-out an accumulated earned surplus deficit and the balance of $3.2 million was transferred to capital surplus.

On formation of the company in October, 1966, Henry and Marrius Orenstein invested in cash $115,400 and $375,400 respectively ($480,000 for 16.0% of preferred stock; $10,800 for a 54% interest in the common stock). As of March 1, 1971 the respective ownership interests of Henry and Marrius Orenstein were as follows: Preferred stock 5.6% and 18.7%; common stock 13.7% and 12.7%. Under an agreement, Henry Orenstein has the right to purchase and vote Marrius Orenstein's common stock. Presently Henry and Marrius Orenstein each hold $500 M of the company's 10% - $5.2 million unsecured notes due $1.350 M on 6/30/71 and $3.850 M on 1/31/72.

Business

During the ten-year period ending in 1963, toys were marketed exclusively through supermarkets. However, in the early 1960's, discount houses began using television advertised toys as traffic builders which resulted in the eventual elimination of supermarkets as an effective distribution outlet for this type of product. In 1964, the predecessor company began eliminating its supermarket business and commenced marketing its products through conventional toy outlets, using television as the basic advertising medium. This basic shift in marketing strategy coupled with an associated change in product mix was a major factor contributing to the losses incurred during the mid-1960's.

At present, Topper is the fifth largest participant in the toy industry. A selected summary of incustry data is as follows:

		$(000) 1968	1969	1970
Sales	Mattel	$234,266	$266,575	$357,911
	Milton Bradley	69,433	72,851	90,126
	Ideal	53,856	64,360	75,065
	Topper	35,036	53,722	63,935
Operating(1) Profit	Mattel	$ 16,962	$ 29,002	$ 29,721
	Milton Bradley	8,924	10,817	12,658
	Ideal	4,195	5,747	7,984
	Topper	1,818	4,277	5,566
Operating Margin	Mattel	7.2%	10.0%	8.3%
	Milton Bradley	12.8%	14.8%	14.0%
	Ideal	7.7%	8.9%	10.6%
	Topper	5.0%	7.9%	8.7%

(NOTE: No published data is available on the second largest industry participant, Kenner, Inc., a subsidiary of General Mills.)

(1) Operating profit before interest and taxes but after depreciation.

Topper's products retail at prices ranging from $.75 to $20 and in 1970, 60% of all sales were in the $.75 to $6 range and 25% were in the $6 to $10 range. The product line consists of 225 items which fall into the following principal categories: Dawn fashion dolls and clothing outfits, toy household appliances, other dolls, steel trucks, robots and die-cast miniature cars and racing sets under the Johnny Lightning name.

While the total toy market has grown from $800 million in 1960 to $2.2 billion in 1970 (a 10% compound annual rate), it is still a very competitive business. A company's success is largely dependent upon its ability to bring new products to the market. Topper employs 60 persons to design and develop new products; however, it is not an industry pacesetter. It has chosen to copy and improve on procucts with a proven market. In 1970, about $1 million was spent on the design and development of new products. Approximately 95% of sales in 1970 was derived from items introduced since 1968.

Another important factor in the acceptance of a company's product is the advertising program. In February of each year the toy manufacturers display their new products at a toy fair. Based on market feedback from the toy fair, an advertising budget is set up. Topper's expenditures for advertising have historically been in excess of 15% of sales and in 1970 the expenditure was $9.8 million. The bulk of Topper's advertising is on television. Sales are made through 60 sales representatives to chain stores and wholesale distributors.

Another competitive factor which was introduced last year by Mattel is extended dating terms. In December, 1970, Topper had sales of $14 million which were sold on terms of 50% on 5/15/71 and 50% on 6/15/71. In December, 1969, Topper had sales on similar terms of $2 million. It is reported that in 1970 longer terms were extended by a great many companies in the industry.

An increased percentage of finished products and components are being purchased from foreign companies, principally in Hong Kong and Japan. In 1970 41% of goods were from foreign countries and in 1971 these purchases are expected to reach 55%. The manufacture and sale of toys is highly seasonal with the second half of the year being the busiest. Topper has attempted to moderate the seasonal fluctuations but has had very little success.

Recently, Topper was successful in signing an agreement with Children's Television Workshop - Sesame Street - to be the only company to manufacture and distribute toys under the "Sesame Street" name. CTW will have the right to approve all products and advertising. In addition, CTW will receive a proprietary royalty interest in the income of the Topper subsidiary which is to manufacture the toys. The agreement covers the period 3/26/71 through 12/31/74 and provides for the following non-returnable advances against future proprietary royalty payments $250,000 on 3/26/71, $150,000 on 1/15/72 and $150,000 on 5/15/72. It should be noted that Topper won this hotly contested award in competition with 30 other industry participants. Since demand for this product has already been created on a national basis via the proven success of the "Sesame Street" television program, sales and profits associated with this new product line are expected to be abnormally high.

Henry Crenstein, President, is 47 years old and is considered to have provided the creativity responsible for the success of Topper. He has been involved in this business since its inception and is particularly active in product development and the creation of advertising. Other key officers are David Downs (41), Executive Vice President - Corporate Development and Jack Rose (40), Senior Vice President - Finance. Mr. Downs was with Manufacturers Hanover from 1955 to 1969 and was a Vice President. Mr. Rose had previously been Treasurer of Lionel Corporation and Parker Pace Corporation. These officers also operate as the executive committee of the company. It should be noted that Topper's investment bankers (CBW-Hayden, Stone) have worked quite closely with the company with both Messrs. Berlind and Weill serving as corporate directors. Company is currently conducting negotiations with CBW concerning private sale of $5 to $7 million of convertible subordinated debentures.

Financial

Presented below is an operating history of Topper and the predecessor for the period 12-31-65 to 4-30-71.

$(000)

Years Ended	Net Sales	Gross Profit Amount	Gross Profit %	Prov. for Fed Inc Tax	Net Profit Amount	Net Profit %
12-31-65	$57,935	$17,505	30.2	-	$ 1,088	1.9
10-3-66(1)	19,322	(1,106)	-	-	(8,622)	-
2-4-67 (2)	11,551	(8,737)	-	-	(18,715)	-
12-31-67(3)	30,222	8,256	27.3	-	(833)	-
12-31-68	35,036	11,191	31.9	567(6)	507(7)	1.4
12-31-69	53,723(4)	17,968	33.4	1.434(6)	1,282(8)	2.4
12-31-70	63,936(5)	20,234	31.6	1.463	1,464(9)	2.3
4 Months Ended						
4-30-70	5,240	NA	-	(922)	(952)	-
4-30-71	8,008	NA	-	(401)	(434)	-

(1) 9 month period and end of ownership by prececessor company.
(2) 4 month period and change of year end.
(3) 11 month period and change of year end.
(4) Net of returns, discounts and allowances of $5.2 million.
(5) Net of returns, discounts and allowances of $13.6 million.
(6) Completely eliminated, before arriving at reported net profits, through offset against net operating loss carryforward.
(7) Reported net profit was $596,000. Above figure is before net credit adjustment of $89,000.
(8) Reported net profit was $2,716,000. Above figure is before complete elimination of $1,434,000 Federal income tax credit.
(9) Reported net profit was $353,000. Above figure is before net loss and provision for net losses aggregating $1,111,000 in connection with discontinuance of toiletries operation.

The low sales and substantial losses incurred during the 13 months ended 2-4-67 were mainly the result of management devoting a major portion of its time during the period ended 10-4-66 negotiating the purchase of the business. A critical shortage of working capital during this period resulted in the liquidation of large quantities of inventory at very low prices, the discontinuance of certain toys and the scrapping of approximately $4 million of raw material. Other factors were high customer returns of merchandise sold on a "bill and hold" arrangement, the discontinuance of the Canadian operation and large expenditures based on an expected level of sales which did not materialize.

Since the period ended 2-4-67 sales have increased each year and reported profits have increased in each year except 1970. Profits in 1970 were adversely affected by the operations of Topper's wholly-owned subsidiary, Youth Care, Inc. Youth Care introduced a line of toiletries in 1970 and incurred a net loss of $876,000. This operation was discontinued late in 1970 at a further net loss of $235,000.

A 3341

Although Topper's net profit decreased in 1970, the pre-tax income from the toy operation was $2.9 million which represents an increase over $2.7 million in 1969. The higher pre-tax profit in 1970 was mainly the result of higher sales because the gross profit margin dropped from 33.4% in 1969 to 31.6% and interest expense increased from $1.5 million to $2.6 million.

The following schedule compares expenditures for fixed assets and depreciation for the years ended 1967 through 1970.

$(000)

Years Ended 12-31	Expenditures for Fixed Assets	Depreciation
1967	$1,015	$2,299
1968	2,146	3,116
1969	5,140	4,250
1970	4,832	5,741

The schedule indicates that depreciation has been more than adequate to cover expenditures for fixed assets. This reflects the company's policy of depreciating molds over a two year period due to the short market life of toys.

Below is presented a five year profit and loss projection as prepared by Topper.

$(000)

Years Ended 12-31	Sales	Provision for FIT	Net Profit	Profit as a % of Sales
1971	$68,000	$ 2,500	$ 2,578	3.7%
1972	78,000	5,775	6,289	8.0
1973	90,000	7,750	8,320	9.2
1974	105,000	10,450	11,295	10.7
1975	120,000	11,800	12,695	10.5

These projections indicate the company's expectations for the Sesame Street toys which will be introduced on a large scale in 1972 and appear to be optimistic in view of past performance. A comparison of back log figures of $33.1 million at May 31, 1971 and $36.5 million at May 31, 1970 shows a decrease of $3.4 million. This decrease is partially offset by higher sales. Also, management indicates some hesitance of customers to order in advance.

Topper's 12-31-70 audited consolidated balance sheet as prepared by Arthur Young & Company, CPA's with an unqualified opinion reflects a weak current position with working capital of $6 million and a relatively heavy debt position with a debt to capital funds ratio of 2.7. The largest asset is accounts receivable of $30.5 million which represents 5.7 average months' sales. The largest liability is notes payable to banks of $16.3 million (net of $3.5 million of loans against cash) secured by all of the company's principal assets (see schedule (III).

The 4-30-71, four month statement, indicates a deterioration in the company's financial condition since 12-31-70. The balance sheet reflects negative working capital of $798 M and a debt to capital funds ratio of 4.4. The negative working capital is mainly the result of $3.8 million of subordinated debt of which the Orenstein's hold a $1 million interest being classified as a current maturity. Tangible net worth decreased $2.9 million. Topper's interim statements include an intangible called unabsorbed expenses which represents manufacturing and advertising expenses which are absorbed based on estimated sales for the year. At 4-30-71 unabsorbed expenses of $2.9 million were deducted from net worth.

A 3842

In May 1971 the company netted $6.4 million on the sale of common stock and used the funds to reduce bank debt. The schedule below presents Topper's debt and equity structure as of 4-30-71 and on a pro forma basis with the effect of the common stock issue and assuming the funding of FMCC's proposed $7 million loan.

($000)

Debt Type	As of 4-30-71	Change	Pro Forma
Short Term - Notes Pay. - Bank	$19,697)	($12,006))	$15,327
- Accts. Pay.	7,654)	)	
- Accruals	962		
- Current Maturity	5,200	(1,350)	3,850
- Total	$33,495	($13,356)	$20,139
Long Term - FMCC	-	7,000	7,000
- Equip.	90	-	90
-Total	$ 90	$ 7,000	$ 7,090
Total Liabilities	$33,585	($ 6,356)	$27,229
Tangible Net Worth	7,633	6,356	13,989
Total Liabilities and Net Worth	$41,218	-0-	$41,218

The changes to the capital structure as shown on a pro forma basis increase working capital to $12.6 million and cause the debt to net worth ratio to improve to 1.9.

Investigation Summary

FMCC has made direct checkings with First National City Bank (FNCB) and Manufacturers Hanover, two of the three banks involved in the Topper loan agreement. Each of the banks participate to the extent of 42.5% or $7.9 million in loans up to $18.5 million with FNCB acting as agent. The loans (exclusive of loans against cash) are secured by accounts receivable, inventory and fixed assets and are predicated on 80% of eligible accounts receivable. The banks have extended loans to Topper since it was formed in 1966 and report a satisfactory relationship. Both banks feel that management is good and that Henry Orenstein is resourceful and creative. FNCB did indicate some disappointment in earnings, but stated that bad debt experience on the accounts receivable has been very good. In summary, the banks feel the present status of the credit to be sound and voice no concern relative to their ability to come out whole in the event of liquidation. As of 6-17-71, $16.3 million was outstanding under the loan agreement.

Topper is not rated by Dun & Bradstreet which reports trade slowness up to 120 days.

Ford Motor Credit Company

A 3843

C & I FINANCIAL SUMMARY

SCHEDULE II
PAGE 7

NAME _____

BALANCE SHEET (000'S)

DATE OF STATEMENT	2-4-67	12-31-67	12-31-68	12-31-69	12-31-70	4-25-71	11-30-71
SOURCE	UNAUDIT	CERT	CERT	CERT	CERT	DIRECT	Pro Forma
CURRENT ASSETS	10,373	12,392	14,584	26,797	41,012	32,697	32,697
CURRENT LIABILITIES	12,248	11,533	14,725	23,838	35,037	33,475	20,139
WORKING CAPITAL	(1,875)	859	(141)	2,959	5,975	(778)	12,558
CURRENT RATIO							
NON-CURRENT ASSETS	10,906	9,721	8,364	9,295	8,590	8,521	8,521
NON-CURRENT LIABILITIES	26,159	8,000	1,945	4,600	3,757	90	7,090
SUBORDINATED DEBT	19,109	--	1,945	4,600	3,850	—	—
TOTAL LIABILITIES	38,356	19,533	16,670	29,438	38,794	33,585	27,229
TANGIBLE NET WORTH	(17,077)	2,580	6,278	7,114	10,578	7,633	13,989
CAPITAL FUNDS (INCL. SUB. DEBT)	2,031	—	8,223	11,714	14,428	—	—
DEBT TO WORTH RATIO	—	7.57	2.66	4.00	3.69	4.40	1.94
DEBT TO CAPITAL FUNDS RATIO	—	—	1.79	.704	2.70	—	—
REAPPRAISAL SURPLUS INCLUDED							
DEFERRED INCOME							
INCLUDED IN							
CONTINGENT LIABILITY							

OPERATING RESULTS (000'S)

PERIOD		11 MOS.	12 MOS.	12 MOS.	12 MOS.	4 MOS.	
SALES		39,222	35,026	53,723	63,936	8,009	
GROSS MARGIN (*)							
OPTG. PROFIT BEFORE TAX AND DEPRN.		1,450	4,189	6,967	7,557	(1,055)	
NON-OPTG. INCOME (NET)			(177)				
DEPRECIATION		(2,283)	(3,116)	(4,251)	(5,741)	(217)	
INCOME TAXES					(1,463)	(101)	
NET INCOME AFTER TAXES		(933)	596	2,716	353	(435)	
DIVIDENDS WITHDRAWALS				(222)	(99)	(99)	
ADJUSTMENTS			18,952				
NET TO SURPLUS							
PRIOR YEAR ADJUSTMENTS							
CHANGE IN CAP. STOCK			10	1,254	724		
CHANGE IN CAP. SURPLUS		19,109	(15,560)	(2,132)	3,115	(34)	
CHANGE IN INTANGIBLES		(1,991)		760	(760)	(3,787)	
NET CHANGE IN TANGIBLE WORTH		19,467	3,698	836	3,411	(3,921)	

A 3844

Schedule II
Page 4

C & I FINANCIAL STATEMENT ANALYSIS

Name							
$(000) Date of Statement	2-4-67	12-31-67	12-31-67	12-31-68	12-31-70	4-30-71	4-[illegible]
Source (Cert., Uncert., Direct)	UNCERT	CERT	CERT	CERT	CERT	DIRECT	[illegible] FOR
Cash	611	682	1517	2,502	3,830	2,621	3,4
ACCTS RECEIVABLE	1727	8,387	8,954	17,223	30,521	21,903	21,4
INVENTORY	6,024	3,321	4,113	6,566	6,631	8,173	8,1
Total Current Assets	10,373	12,392	14,584	26,297	41,012	32,697	33,1
Leasehold Impry. (*if not)	1,619	1,629	1,651	1,857	2,175		
Land & Buildings TOOLING	6,974	7,620	8,454	10,145	10,812	18,771	18,7
Machinery & Equipment	2,109	2,104	2,354	3,931	4,947		
Reserve for Depreciation	(626)	(2,684)	(4,802)	(7,719)	(10,064)	(11,382)	(11,3
Prepaid, Deposits, & Misc.	101	86	181	660	1,070	1,097	1,0
OTHER	729	966	511	84		35	
Total Non-Current Assets	10,906	9,721	8,364	9,255	8,940	8,521	8,5
TOTAL ASSETS	21,279	22,113	22,948	35,552	49,602	41,218	41,7
Accounts Payable	4,382	2,533	2,616	5,481	12,182	7,654	15,3
NOTES PAYABLE	5,524	8,341	7,622	14,230	19,818	19,679	
ACCRUALS	1,342	684	907	1,826	1,301	962	
CURRENT MATURITIES	1,000			2,074	1,350	5,200	3,2
DUE TO FOREIGN PARENT			3,500				
DIVIDENDS PAYABLE				222			
F.E.D. INC. TAX					386		
Total Current Liabilities	12,248	11,533	14,725	23,834	35,037	33,495	30,1
Notes Payable	7,000	8,000			101	90	1,0
Deferred Income Tax							
Subordinated to DEBT	19,104		1945	4,600	3,550		
Total Non-Current Liabilities	26,104	8,000	1945	4,600	3,651	90	1,0
TOTAL LIABILITIES	38,350	19,533	16,670	28,434	38,688	33,585	31,1
Preferred Stock	3,000	3,000	3,000	1,930	1,930	1,930	1,9
Common Stock or Investment	20	20	30	3,804	8,002	3,211	3,2
Capital Surplus		1,402	3,248	1,111	3,311	3,311	3,3
Earned Surplus	(19,715)	(18,842)		2,414	3,719	3,215	3,2
Intangibles (deduct)	(1,382)			(1,762)	(1,750)	(1,934)	(1,9
Total Tangible Net Worth	(17,077)	2,580	6,278	7,117	10,512	7,633	7,6
TOTAL LIAB. & NET WORTH	21,273	22,113	22,948	35,552	49,200	41,218	41,7

Collateral Description and Evaluation

A 3845

Collateral for FMCC's proposed $7 million loan will be a pro rata share of a collateral pool consisting of a first security interest in accounts receivable, inventories, fixed assets and an assignment of a $4 million face value insurance policy on the life of Henry Orenstein. The other participants in the collateral pool are the banks involved in an agreement with First National City Bank, as agent and with loans under that agreement to be limited to $16 million.

A comparison of the book values of accounts receivable, inventories and fixed assets for 12/31/69, 12/31/70, 4/30/70 and 5/31/71 and bank loans against the collateral is given in the following schedule.

$(000)

	12/31/69	12/31/70	4/30/71	5/31/71
Accounts Receivable - Net	$17,222	$30,198	$21,580	$23,019
Inventories - Net	6,566	6,631	8,173	8,980
Fixed Assets - Net	8,511	7,520	7,389	7,351
Total Collateral	$32,299	$44,349	$37,142	$39,350
Bank Loans	$14,230	$19,818	$19,679	$[illegible]
Less Loans Against Cash	2,440	3,500	2,500	1,500
Bank Loans Secured by Collateral	$11,790	$16,318	$17,179	$14,280

Topper's sales terms are as follows: Spring - December through February, 50% on 5/15, and 50% on 8/15. Spring terms were introduced for the first time in December 1970. Fall (after Toy Show in March) - March through November, 100 days for jobbers and large retailers, 30 days for most retailers and 60 to 90 days for a few customers. In December, 1970 sales of $14 million were given datings of 50% on 5/15/71 and 50% on 8/15/71. In 1971 $2 million of billings were redated.

A comparative aging of accounts receivable, according to billing terms, as of 4/30/71 and 5/28/71 follows:

$(000)

	4/30/71		5/28/71	
	Amount	Percent	Amount	Percent
Current	$20,765	74.6	$13,721	49.7
30	273	1.0	8,853	32.1
60	49	.3	133	.4
90 and prior	5,440	19.5	4,929	17.9
Other	4,874	17.5	5,246	19.0
Credits	(3,596)	(12.9)	(5,286)	(19.1)
Total	$27,805	100.0%	$27,596	100.0%

The following schedule is a listing of accounts receivable as of 4/30/71 by the month of billing. The schedule does not give an indication of past due receivables, but when compared with the above schedule, it does given an indication of the terms made available by Topper.

$(000)

	Amount	Percent
April	$ 3,471	12.4%
March	3,854	13.9
February	806	2.9
January and prior	18,395	66.2
Other	4,874	17.5
Credits	(3,596)	(12.9)
Total	$27,805	100.0%

The Other classification in the above receivable listings represents discounts which customers have taken prior to the issuance of a credit. Topper finds

that approximately 50% of the items in this classification are eventually collected and credits are issued for the remainder. Items which are deducted from receivables are returns and advertising discounts. Returns in 1970 were $3.6 million compared to $1.6 million in 1969. Advertising discounts are given to customers which advertise Topper toys and run approximately $1.7 million annually.

A reconciliation of accounts receivable as of 4/30/71 to statement figures is given in the following schedule.

	$(000)	
Accounts Receivable		$27,805
Allowance - Uncollectible Accounts	570	
- Unapplied Deductions	115	
- Discounts-Advertising	2,091	
Accrued Estimated Returns	3,668	6,444
		21,361
Other	218	218
Accounts Receivable - Statement		$21,580

The Accrued Estimated Returns of $3.7 million in the above schedule includes $1.2 million of credits which were issued and not taken in 1970 plus an estimated reserve of $2.5 million for returns expected during calendar year 1971. Discounts-advertising represents a reserve for discounts not taken in 1970 and discounts expected in 1971.

The figures in the following schedule were provided by FNCB and show the banks' method of computing the eligibility of accounts receivable as of 6/17/71.

	$(000)
Accounts Receivable	$27.5
Less Extended Terms	2.0
	$25.5
Less Past Due	3.6
Less Ineligible	2.6
	$19.3
Less 20%	3.8
	$15.5
50% of Extended Terms	1.0
Loan Availability	$16.5
Borrowings	$16.3

Past due accounts receivable are defined as accounts 60 days past due according to terms. The ineligible accounts are billings on toys which have not been shipped

Topper's accounts receivable appear to be of good quality with Kresge representing approximately 8% of sales volume. Other large customers include J. C. Penney, Montgomery Ward, Vornado, Woolworth and W. T. Grant. At 4/30/71 accounts receivable included $6.8 million due from AAA1 rated companies and $2.8 million due from companies with A1 ratings or better. Bad debts charged off in 1970 totaled $84,780 compared with $70,244 for 1969. Topper was involved with only one bankruptcy account during the past three years involving an account with a balance receivable of $140,000 on which it recovered in excess of 50% of the balance due.

Summary

Although the accounts receivable have a high amount of datings and are subject to extended terms and frequent returns, they appear to be adequate collateral for FMCC's proposed loan and additional support is provided by the inventory, fixed assets and life insurance. CIR believes that the proposed collateral, in combination with Borrower's credit, results in a satisfactory transaction for FMCC.

A 3848

TOPPER CORPORATION

CONSOLIDATED LOAN STATUS

AUGUST 16, 1971

LOAN BALANCE:			
Opening balance			$ 19,832,713.67
Add: Amount borrowed	$ 200,000.00		
Interest charged	-		
Other	-		200,000.00
Total			20,032,713.67
Less: Cash receipts	$ 1,107,253.32		
Interest paid	-		
Other	-		1,107,253.32
Ending balance			18,925,460.35
Less, cash collateral			-
Balance utilized			$ 18,925,460.35

NON-CASH COLLATERAL ANALYSIS:

		Book Value	Collateral Value
Accounts receivable	(80%)	$17,203,297.73*	$ 13,762,638.18
Accounts receivable - Bill and Hold	(50%)	187,049.73	93,524.86
Accounts receivable - redating	(50%)	1,963,645.67	981,822.84
Finished goods	(50%)(1)(3)	4,482,967.02	-
Raw materials	(50%)(2)(3)	883,689.81	-
			$ 14,837,985.88
AVAILABLE COLLATERAL (OVERDRAFT)			$ (4,087,474.47)
			4360000
			8-16-71
			Date

(1) Book value per I.B.M. perpetual inventory.
(2) Value of specific raw materials assigned only.
(3) Overdraft, if any, supported by:

(a)	Reserve on receivables	$ 3,926,913.55	1000
(b)	Fixed assets at book value	$ 7,000,000.00	
(c)	100% reserve on inventory	$ 5,366,656.83	2600
(d)	Terminal invoices	$ 4,082,075.69	1000
(e)	Reserve on redating - 30%	$ 589,093.70	
(f)	Past due receivable	$ 7,244,510.07	4600
Total		$ 28,209,249.84	

*Excludes $ 133,828.63 of Drop-Ship invoices.

A 3849

Mr. Dean: 7/8/71

Addendum to Topper Corporation Financing Proposal.

Wm. G. Duncan

[redacted]

[redacted]

Ford 7

A 3850

Ford Motor Credit Company

July 7, 1971

To: Members of the CIR Credit Committee

Subject: Questions raised concerning the proposed Topper Corporation financing

1. Current status of tax loss carryforward.

Current status - Net Operating Loss Carryforward (per Jack Rose, Senior V. P. - Finance & Secretary July 7, 1971).

Amount expiring in 1971	$5.4 million
Amount expiring in 1972	2.1 million
	$7.5 million

Based on continuing discussion with Internal Revenue Agents Mr. Rose estimates that the figures of $7.5 million will be reduced to $3.5 - $4 million. If the final figure is in this range, no tax payments would be required for the year 1970 (12/31/70 balance sheet reflects a Federal income tax liability of $387,000). It would also result in a lower Federal income tax provision for the year 1971.

2. More detailed outline of eligible accounts receivable.

See attached Exhibit I

3. Current status of unabsorbed expense write-offs.

in 000's	3 Mos. End. 3/31/71	4 Mos. End. 4/30/71	5 Mos. End. 5/31/71	5 Mos. End. 5/31/70
Unabsorbed Expenses:				
Manufacturing	$ 808	$1,179	$1,415 (1)	$1,906
Advertising & Sales	1,634	1,674	1,789 (2)	1,433
Total	$2,442	$2,853	$3,204	$3,339
Pre tax (Loss)	$ (765)	$ (835)	$ (622)	$(1,345)

(1) Will be fully absorbed in September or October 1971 based upon current projections.
(2) Will be fully absorbed in December 1971 based upon current projections.

4. Comparison of fiscal 1968 thru 1970 sales gains vs. profit results.

See Exhibit B

5. Expansion of bank credit line from $18.5 million to $23 million.

The expanded bank line evolved as follows: FMCC indicated preliminary interest in a $7 million secured term loan. Topper approached Manufacturers Hanover Bank with a request that it act as agent bank in the creation of a new credit line. Manufacturers indicated a preliminary interest in doing so suggesting a new $15 million bank line, which, coupled with the FMCC commitment, would have resulted in a total credit of $22 million. Topper countered with a request for a $16 million bank line (resulting in a total credit of $23 million) which the bank agreed to. When Manufacturers declined to act as agent, Topper approached FNCB with the same deal (i.e. $16 million bank credit - $7 million FMCC term loan). FNCB has agreed to such a line up; hence, the $23 million aggregate financing.

R. G. Pompea

W. F. Finan

A 3852

TOPPER CORPORATION

CONSOLIDATED LOAN STATUS

EXHIBIT I

JUNE 11, 1971

LOAN BALANCE:		
Opening balance		$15,812,881.89
Add: Amount Borrowed	$ 150,000.00	
Interest Charged	-	
Other	-	150,000.00
Total		15,962,881.89
Less: Cash receipts	13,097.73	
Interest paid	-	
Other	-	13,097.73
Ending balance		15,949,784.16
Less, cash collateral		-
Balance utilized		$15,949,784.16

NON-CASH COLLATERAL ANALYSIS:

		Book Value	Collateral Value
Accounts receivable	(80%)	$ 19,530,728.73*	$ 15,624,582.98
Accounts receivable - Bill and Hold	(50%)	172,115.09	86,057.55
** Accounts receivable - redating	(50%)	1,953,693.21	976,846.61
Finished goods	(50%) (1) (3)	4,656,440.84	-
Raw materials	(50%) (2) (3)	1,071,781.24	-
			$ 16,687,487.14
AVAILABLE COLLATERAL (OVERDRAFT)			$ 737,702.98

** Redated in Feb. and March 1971 due 9/10/71 - will probably be collected in full on or before October 15, 1971

MEMO:

Interest - estimated $ 152,096.00

6-11-71
Date

(1) Book value per I.B.M. perpetual inventory.
(2) Value of specific raw materials assigned only.
(3) Overdraft, if any, supported by:
- (a) Reserve on receivables $4,969,049.89
- (b) Fixed assets at book value $7,000,000.00
- (c) 100% reserve on inventory $5,728,222.08
- (d) Terminal invoices - Customers billed - merchandise in Bonded Field Warehouse $2,386,493.67

*Excludes $133,828.63 of Drop-Ship invoices. re direct shipments to customers.

JUN 14 1971

A 3853

8/31/71

(in 000's)

Gross Receivables	$35,450
Accounts 60 or more days past due	7,200
Goods sold but held in field warehouse	4,300
Accounts redated (not longer than 180 days)	6,300
Eligible Receivables *	$17,650

*Represent merchandise sold and actually delivered on terms not exceeding 120 days plus accounts not more than 60 days past due.

Borrowing Base

Eligible Receivables	$17,650	@	80%	$14,120
Field Warehouse Recv.	4,300①	@	50% up to $1,000	1,000
Redated Receivables	6,300	@	50% up to $1,000	1,000
Total	$28,250			$16,120

Borrowing Base @ 8/31/71	$16,120
Borrowings @ 8/31/71	19,600
Overdraft *	$(3,480)
Add back 20% of Eligible Receivables	$ 3,530
Net Available Credit	$ 50

* Note - this is a discretionary advance on the part of the banks

4.3 [illegible] sale price

[illegible] Exhibit Fond 10

9-30-75 DAC.

A 3854

Ford Motor Credit Company

Intra Company

October 27, 1971

To: Mr. Wm. G. Duncan

cc: Mr. R.G. Pompea
Mr. D.W. Ellis

Subject: Topper Corporation

Attached for your consideration is the following:

1. Summary of comparative sales and earnings for the eight months ended August 31, the four months ended December 31 and the year ended December 31.

2. Copy of Consolidated Loan Status Report as of October 20, 1971 showing excess borrowing power of $2.5 million.

3. Comparative financial statements for the year ended December 31, 1970 and Pro Forma for the four months ended April 30, 1971.

Additional brief comments are as follows:

1. We anticipate receiving financial statements for the third quarter ended September 30, 1971 within a few days. On receipt of same, we plan to ask the Finance Committee to rescind the provision that requires us to sell off $2 million of our $7 million loan. I think the $7 million loan is adequately secured and, therefore, would recommend that we retain the full loan.

2. Larry Rychlick of Loan Administration is in the process of reviewing our file and setting up the necessary records for loan policing purposes.

3. It appears unlikely that the company will be able to meet its 1971 projections calling for Net Sales of $68 million and Net Profit Before Taxes of $5 million.

4. As you know, the company was successful in marketing $5.25 million of convertible subordinated notes in early October, 1971.

5. Should the company qualify for unsecured credit as provided under our loan agreement, you will recall that the various covenants have yet to be defined. It is our intention to make these covenants sufficiently tight to afford adequate protection for our loan.

W.F. Finan

HSX Ford 15

A 3855

EXHIBIT C

Ford Motor Credit Company

Intra Company

October 19, 1971

To: Mr. R. S. Cornwall

cc: Mr. W. G. Duncan
Mr. B. L. Lavery

Subject: Topper Corporation

On July 8, 1971, the Finance Committee approved the purchase of a $7.0 million Topper Corporation Secured Note due December 31, 1976. This issue, which was funded on September 16, 1971, is secured by a pro rata participation with First National City Bank and Manufacturers Hanover Trust Co. in a collateral pool consisting of certain eligible accounts receivable, inventory and fixed assets. FMCC has agreed to terminate this security interest in the event the borrower:

(a) has generated pre tax profits in any fiscal year of

(i) $6.5 million and said profits represent 3.5x's coverage of interest charges incurred or,

(ii) $5.0 million but only in the event that at least $5.0 million of junior capital has been raised from outside sources

(b) has $20.0 million of working capital

(c) has net tangible assets equal to at least 3.0x's total funded indebtedness

(d) has been free from current bank borrowings for at least 10 consecutive days

(e) has no other secured borrowings.

This financing was approved subject to the provision that financial exposure would be reduced to $5.0 million via sale of a participation(s) in an amount of not less than $2.0 million within 90 days of the September 16 Closing Date.

Since the Finance Committee approved the Topper Corporation investment several events have occurred that markedly improve the borrower's financial position as outlined below.

(a) This month, Topper sold $5,250,000 of convertible subordinated notes, proceeds of which were used to pay down outstanding bank indebtedness. Principal purchasers were U. S. Steel Pension Trust - $3.0 million and Connecticut Mutual Insurance Company - $1.0 million. The remaining $1,250,000 was purchased by four smaller financial institutions. This financing, coupled with the $7.0 million FMCC investment and a $6.7 million public equity offering consummated in April 1971, has substantially improved the borrower's balance sheet position as outlined in the attached exhibit.

(b) Borrower's earnings for the first seven months of 1971 closely parallel those for a similar period in fiscal 1970 when it earned $2.9 million before tax. It should be noted that unabsorbed expenses were $2,366,000 at 7/31/71 vs. $3,624,000 at 7/31/70.

(in 000's) 7 Mos. Ending	7/31/70	7/31/71
Net Sales	$22,065	$22,502
Cost of Sales	14,451	14,991
Gross Profit	7,614	7,511
Gross Margin	34.5%	33.3%
Operating Expense	6,005	5,879
Operating Profit	1,609	1,632
Operating Margin	7.2%	7.2%
Interest Expense	1,228	1,262
Other Expense	327	140
Net Before Tax	54	230
Income Taxes	(120)	110
Loss - Discontinued Operations	(296)	-
Net Income	$ (122)	$ 120

As Topper moves into its prime selling season (October through December) management remains confident of its ability to earn $5.0 million before tax as projected, which would represent a significant improvement over fiscal 1970 performance. Principal uncertainty at this writing concerns what effect a prolonged dock strike in the New York area might have on merchandise availability. Three of the company's basic products ("Dawn" dolls, "Ding A Ling" robots and "Zoomer Boomer" trucks) are all manufactured in the Orient for subsequent shipment to the U. S. Delays in shipment at this critical point could impair the projected level of volume and profitability. However, management feels that alternative measures (air freight or over-the-road shipment of merchandise delivered on the west coast) can be relied upon to moderate the impact of an extended New York strike.

(c) In late July 1971, Topper's Common Stock was listed on the American Stock Exchange. The increased investor support thus afforded should enhance the company's already proven capability to raise outside capital.

Given the borrower's much improved balance sheet position and steady earnings progress it is suggested that the financial risk associated with FMCC's $7.0 million investment has decreased since the original date of commitment. Accordingly, it is recommended that sale of a $2.0 million participation in this profitable receivable (R.O.E. estimated at 32.2%) be reconsidered.

R. G. Pompea

R. G. Pompea

A 3857

COPY

Ford Motor Credit Company

Intra Company

November 17, 1971

To: Members of the Finance Committee

Subject: CIR Financing Proposal Revisions:
(1) Change in Borrowing Formula with respect to accounts receivable pledged as partial security to our $7 million loan, and
(2) Recission of provision that our $7 million loan be reduced to $5 million no later than three months after closing on 9/17/71 through sale of a participation.

Borrower: Topper Corporation, Elizabeth, New Jersey

On 7/15/71 the Finance Committee approved a $7 million loan repayable in equal quarterly instalments commencing 3/31/75 through 12/31/76. Our $7 million loan, together with loans from banks under short-term commitments aggregating $16 million (for a total credit of $23 million) is secured by accounts receivable, inventories, fixed assets and an assignment of $4 million face value of life insurance, but with combined loans not to exceed 80% of eligible accounts receivable. Our approval also provided for the release of collateral security under certain conditions outlined in Schedule I of original proposal attached. The 7/15/71 approval was conditioned as follows with appropriate comments thereto:

1. A default under the bank loans will be a default under FMCC's loan. This has been made a condition of our loan.

2. FMCC's Finance Committee is to be given an opportunity to review Borrower's condition and final loan provisions prior to releasing collateral under conditions provided for in the Loan Agreement. This will be done when and if Borrower meets all requirements for such release.

3. FMCC's $7 million loan is to be reduced to $5 million no later than three months after closing on 9/17/71 through sale of a participation. Recission of this condition is a subject matter of this write-up for reasons commented on below.

A comparative summary of loan collateral and loans there against as of 4/30/71 (figures presented in original proposal) and 9/30/71 (most current figures on file) is as follows:

	(000's)	
	4/30/71	9/30/71
Loan Collateral:		
Accounts Receivable - Net	$21,580	$35,994
Inventories - Net	8,173	10,678
Fixed Assets - Net	7,389	6,246
Total	$37,142	$53,118
Loans Against Collateral		
Banks	$17,179	$ 7,826
FMCC	—	7,000
Total	$17,179	$14,826

Financial Highlights

A comparative summary of operations for the first 4 and 9 months of 1970 and 1971 follows:

	4 Mos. Ended 4/30		9 Mos. Ended 9/30	
	1970	1971	1970	1971
Net Sales	$5,240	$8,008	$34,786	$37,779
Unabsorbed Expenses	2,434	2,853	2,973	1,075
Net Income BIT	(1,874)	(835)	975*	2,831
Prov. for IT	(922)	(401)	807	1,359
Net Income AIT	(952)	(434)	168	1,472

*Net of net loss of $667,000 from discontinued toiletries operation.

As of 9/30/71 Topper sold $5.25 million of 7½% Convertible Subordinated Notes due 9/30/86 with net proceeds of $5 million used to reduce current bank loans.

Requested Revisions

(1) Change in Borrowing Formula

Loan was approved on the basis that combined FMCC and bank loans would not exceed 80% of eligible accounts receivable in accord with the bank's definition of "eligible" consisting of accounts receivable (net of discounts returns and allowances) according to terms and such accounts up to 60 days past due. Topper's sales terms ranged from 30 days to 50% in 5 months with balance of 50% in 8 months. A new formula was adopted in final negotiations with Topper and the banks and based on calculations at that time it appeared to be within the above 80% of "eligible" requirements. It has now been determined that loans under the new formula incorporated in our loan documents could exceed the 80% of "eligible" formula. Hence approval of the new formula is herewith requested. It is as follows:

(a) 80% of Eligible Receivables as determined by Banks - accounts receivable on terms of sale not exceeding 120 days, net of discounts and reserves and not over 60 days past due
(b) 50% of the cost of merchandise sold under "Bill & Hold", up to $1 million, on terms of sale not exceeding 180 days.
(c) 50% of redated accounts receivable, up to $1 million, not exceeding 180 days from original invoice payment date.

In addition, Banks have the right to make Overadvances up to 20% of Eligible Receivables.

It should be noted that the new formula has the effect of discouraging long-terms and datings.

(2) Recission of provision that we sell off $2 million of our loan.

In view of the following:

(a) the injection of $5 million in cash behind our loan through the sale as of 9/30/71 of $5.25 in 7½% Convertible Subordinated Notes due 9/30/86

(b) the improvement in earnings, net income for 9 months ended 9/30/71 $1,472,000 compared with $168,000 for the same period in 1970, and

(c) the favorable interest rate on our loan - 5½% floating over prime with a floor of 11½% and a ceiling of 14%.

It is therefore recommended that the condition requiring sale of a $2 million portion be rescinded.

Attached are the following exhibits for consideration:

A. Summary of Sales, Receivables and Loans
B. Comparative Financial Summary and Statements
C. Memorandum by R.G. Pompea dated October 19, 1971
D. Proposal for the existing $7 million loan dated June 28, 1971 and approved July 15, 1971

Recommendations & Concurrences	CIR Credit Committee	Date	Finance Committee	Date
B.L. Lavery	R.S. Olson		R.S. Olson	
Wm. G. Duncan	J.C. Dean		J.C. Dean	
R.D. Cornwall	J.A. Jansma		John Sagan	
J.A. Jansma	W.H. Guinn			
Legal:	R.S. Cornwall			

Topper Corporation A 3860

Summary of Sales, Receivables and Loans

A comparative sales summary for the nine months period ended 9/30/70 and 9/30/71 follows:

(000's)

	Nine Months Ended	
	9/30/70	9/30/71
Gross Sales	$40,194	$41,970
Less Returns	$ 2,496	$ 1,177
Discounts	2,912	3,014
Total	$ 5,408	$ 4,191
Net Sales	$34,786	$37,779

A comparative aging of accounts receivable, according to billing terms, and loans partially secured by accounts receivable as of 4/30/71 and 9/30/71 follows:

(000's)

	4/30/71		9/30/71	
	Amount	%	Amount	%
Current	$20,765	74.6	$18,595	44.6
30 Days	273	1.0	3,570	8.6
60 Days	49	.3	5,877	14.0
90 Days & Prior	5,440	19.5	9,555	22.8
(a) Other Debits	4,874	17.5	4,147	10.0
(b) Other Credits	(3,596)	(12.9)	(32)	(-)
	$27,805	100.0%	$41,712	100.0%
Less Reserves:				
Returns, Allowances & Discounts	5,874		5,148	
Uncollectable Accounts	570		570	
	6,444		5,718	
	21,361		35,994	
Other Receivables	541		190	
Per Balance Sheet	21,903		36,184	

(a) Estimated portion of billings that will result in returns, allowances and discounts.

(b) Credits allowed for returns, allowances and discounts.

Accounts receivable as of 9/30/71 per balance sheet are further summarized below:

	(000's)
Eligible Current Accounts	$21,973
Bill & Hold Accounts	4,895
Redated Accounts	1,936
Accounts Past Due Over 60 Days	7,380
	$36,184

Maximum borrowing power at 9/30/71 was as follows:

Eligible Current Accounts - 80%	$17,578
Bill & Hold Accounts - Maximum	1,000
Redated Accounts - 50% (Max. $1 million)	968
	$19,546
Loans against at 9/30/71	14,836
Excess Borrowing Power	$ 3,710

COPY

A 3861

Ford Motor Credit Company

November 23, 1971

Intra Company

To: Members of the Finance Committee

Subject: CIR Financing Proposal - Revision of Approval Terms
Borrower: Topper Corporation

The June 28, 1971, financing proposal (copy attached) provided that First National City Bank and Ford Credit loans would not exceed 80% of eligible accounts receivable and the Committee approval required that Ford Credit reduce its $7 million initial advance to $5 million within 90 days of funding through sale of a participatio

Final negotiation with Topper and Citibank provided for advances to be under a new formula as follows:

(a) 80% of eligible receivables providing for payment within 120 days that are not more than 60 days past due.

(b) 50% of the cost of merchandise sold under "bill & hold," up to $1 million, on terms of sale not exceeding 180 days.

(c) 50% of redated accounts receivable, up to $1 million, with due dates not exceeding 180 days from original invoice due date.

(d) Bank at its option can make "over advances" up to 20% of eligible receivables.

The new formula is less liberal than the bank's previous plan as it limits advances under (b) and (c) above and defines the acceptable collateral on a more restrictive basis. Initially it was believed that under any conditions the combined bank and Ford Credit loans would not exceed 80% of total acceptable receivables, however, we now find that such is not the case. It has been determined that during the active selling season (primarily late summer and fall) the receivables under (a) above may represent such a high percentage of total acceptable receivables under (a), (b) and (c) that the aggregate including the "over advance" permitted under (d) will exceed 80% of total acceptable receivables. Under the new formula the maximum advances at any time will not exceed 100% of eligible receivables under (a) plus $2 million under (b) and (c). Since the advances are additionally secured by fixed assets and tooling with a net book value of $6 million and inventory of $10 million at 9/30/71, it is believed that the loans will at all times remain well secured.

During September 1971, Borrower received $5 million in proceeds from the sale of 7½% Convertible Subordinated Notes due in 1986 and with more profitable operations shows a substantially improved financial condition since the date of the initial approval. As of 9/30/71, Borrower has a tangible net worth of $17.7 million and capital funds of $22.9 million with a debt to worth ratio of 2.16 and a debt to capital funds ratio of 1.44. The attached exhibits set out the Borrower's financial condition and the loan data in more detail.

Topper Corporation

It is believed that Ford Credit's existing $7 million outstanding represents a sound investment and it is proposed that the Committee approve (a) the advance formula set out above and (b) continuation of the loan at $7 million.

Recommendations and Concurrences	CIR Credit Committee	Date	Finance Committee	Da
B. L. Lavery	R. S. Olson		R. S. Olson	
Wm. G. Duncan	J. C. Dean		J. C. Dean	
R. S. Cornwall	J. A. Jansma		John Sagan	
J. A. Jansma	W. H. Guinn			
Legal	R. S. Cornwall			

A comparative summary of loan collateral and loans there against as of 4/30/71 (figures presented in original proposal) and 9/30/71 (most current figures on file) is as follows:

	(000's) 4/30/71	9/30/71
Loan Collateral:		
Accounts Receivable - Net	$21,580	$35,994
Inventories - Net	8,173	10,878
Fixed Assets - Net	7,389	6,246
Total	$37,142	$53,118
Loans Against Collateral		
Banks	$17,179	$ 7,836
FMCC	—	7,000
Total	$17,179	$14,836

A comparative summary of operations for the first 4 and 9 months of 1970 and 1971 follows:

	4 Mos. Ended 4/30		9 Mos. Ended 9/30	
	1970	1971	1970	1971
Net Sales	$5,240	$8,008	$34,786	$37,779
Unabsorbed Expenses	2,434	2,853	2,973	1,075
Net Income BIT	(1,874)	(835)	975*	2,831
Prov. for IT	(922)	(401)	807	1,359
Net Income AIT	(952)	(434)	168	1,472

*Net of net loss of $667,000 from discontinued toiletries operation.

D A 3864

CABLES TELEX
WHITECASE, NEW YORK 20201
WHITECASE, PARIS 22242
WHITECASE, BRUSSELS 23100

WHITE & CASE
14 WALL STREET
NEW YORK, N. Y. 10005
(212) 732-1040

February 9, 1971

SLP:md

ANTHONY MANCUSO
1/14/75
ANS EXHIBIT; Walsh Q
FD

Topper Corporation
107 Trumbull Street
Elizabeth, New Jersey 07206

Attention: Mr. Jack J. Rose,
Senior Vice President - Finance

Dear Sirs:

You have requested our opinion as to the time that title to certain of your Dawn merchandise passed to Martin Zippel Co. (the "Buyer"). Such merchandise, which is described under the caption "Dawn" in the copy of your purchase order attached hereto (the "Purchase Order"), is hereinafter called the "Merchandise." The Purchase Order bears your order No. 148,007. While the Purchase Order provides on its face in printed type that "All Shipments are F.O.B. Factory Elizabeth, New Jersey" and that "title to all goods passes to customer upon delivery to carrier," a typed rider to the Purchase Order provides that all orders for Dawn merchandise may be shipped from the Orient in individual containers and that, with regard to such goods, "Transfer of title will take place and the shipment will be Invoiced to the customer as of the day following the date the vessel leaves port."

According to the attached documents, which are described below, orders for Dawn merchandise are accepted by you at Elizabeth, New Jersey. You then communicate to your Hong Kong coordinator all relevant information respecting such orders, including the order number and a description of the Dawn merchandise to be shipped. Your Hong Kong coordinator then prepares and submits to the public warehouse at which the Dawn merchandise is inventoried, an instruction report which describes by item and order number the Dawn merchandise to be packed and sealed into a container. After

the warehouse loads the Dawn merchandise into a container in accordance with such report and has the container sealed, it notes on the instruction report exactly what it has placed into the container. A copy of this report is then returned to your Hong Kong coordinator and another copy given to a freight forwarder which arranges for delivery of the container to the customer.

In connection with your request for our opinion, you have furnished us photocopies of the following documents which are attached hereto:

1. Summary of Special Container Program;

2. Topper Corporation Spring Promotion Container Procedure with Penson & Company, Inc.;

3. Topper Corporation Spring Promotion Container Program Hong Kong Procedure;

4. Marine Open Cargo Procedure Policy No. 16191 of the Insurance Company of North America;

5. Your letter, dated November 30, 1970, to United States Customs relative to the Merchandise;

6. The letter of Penson & Company, Inc., dated November 30, 1970, to the Buyer relative to the Merchandise;

7. Your Invoice, dated November 30, 1970, relative to the Merchandise; and

8. The Purchase Order.

Based upon an examination of the attached documents, and assuming that the Purchase Order was performed in the manner contemplated by the documents numbered 1, 2 and 3 above, we are of the opinion that title to the Merchandise passed to the Buyer at the time set forth in the Purchase Order, that is, on the day following the date the vessel transporting the container left port. For the purposes of our opinion, we assume

that the applicable law is the Uniform Commercial Code (the "UCC") which has been adopted by each state in the United States (except Louisiana), by Washington, D. C. and by the Virgin Islands.

Since your transaction with the Buyer is a transaction in goods, Article 2 of the UCC applies (see Section 2-102). Section 2-401 provides in part:

> "Each provision of this Article with regard to the rights, obligations and remedies of the seller, the buyer, purchasers or other third parties applies irrespective of title to the goods except where the provision refers to such title. Insofar as situations are not covered by the other provisions of this Article and matters concerning title become material the following rules apply:
>
> (1) Title to goods cannot pass under a contract for sale prior to their identification to the contract.... Any retention or reservation by the seller of the title (property) in goods shipped or delivered to the buyer is limited in effect to a reservation of a security interest. Subject to these provisions and to the provisions of the Article on Secured Transactions (Article 9), title to goods passes from the seller to the buyer in any manner and on any condition explicitly agreed upon by the parties (emphasis added)."

Under general principles of contract law, which supplement the UCC (see Section 1-103), the typed provisions in the rider to the Purchase Order supersede the printed language suggesting that title passed upon delivery of the Merchandise to the carrier. Accordingly, title to the Merchandise passed in the manner described in the rider, that is, as of the day following the date the vessel left port. Identification of the Merchandise to the Purchase Order occurred at the time of containerization, for Section 2-501 specifically provides that, in the absence of a contrary agreement, identification occurs "when goods are shipped, marked or otherwise designated by the seller as goods to which the contract refers."

Very truly yours,

White & Case

ARTHUR YOUNG & COMPANY A 3867

Hayden, Stone
2011
Proskauer's Ex. 1 For Identification
9.19.25 Donna A. Metz

277 PARK AVENUE
NEW YORK, N.Y. 10017

May 6, 1971

CBWL-Hayden, Stone Inc.
As Representatives of the Several Underwriters
767 Fifth Avenue
New York, N. Y. 10022

Dear Sirs:

In connection with the Registration Statement (No. 2-39801) which Topper Corporation (the "Company") has filed with the Securities and Exchange Commission for the registration of 750,000 shares of common stock which became effective April 29, 1971:

1. We confirm that, with respect to the Company, we are independent public accountants within the meaning of the Securities Act of 1933 and the rules and regulations thereunder.

2. In our opinion, the consolidated financial statements, the schedules and the consolidated statement of operations of the Company included in the Registration Statement and Prospectus at the dates and for the periods reported on therein by us comply as to form in all material respects with the applicable accounting requirements of the Securities Act of 1933 and the rules and regulations thereunder.

3. We have not made an examination of the consolidated financial statements nor audited the accounting records for the three months ended March 31, 1970 or at any date or for any period subsequent to December 31, 1970. We have performed certain limited procedures as described in 4. below. These procedures would not necessarily reveal non-compliance, non-conformity, inconsistencies, required adjustments or adverse or other changes of the types mentioned in 5. below. Since these procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on the results of operations for the three months ended March 31, 1970 or for any period subsequent to December 31, 1970, nor on the consolidated financial position at any date subsequent to December 31, 1970.

4. The procedures referred to in 3. above consisted of the following:

(a) The unaudited consolidated financial statements at March 31, 1971 and for the three months then ended, the latest available financial statements prepared by the Company, were read and compared with the consolidated financial statements at the dates and for

the periods reported on by us in the Prospectus and with the corresponding unaudited consolidated financial statements at March 31, 1970 and for the three months then ended.

(b) Officials responsible for financial accounting matters were questioned as to whether (1) the various principal items in the unaudited consolidated financial statements were treated in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the periods reported on by us, (2) all adjustments necessary for a fair presentation of the consolidated financial position at March 31, 1971 and the results of operations for the three-month periods ended March 31, 1970 and March 31, 1971, had been made, (3) any adjustments other than normal recurring accruals had been made during the three months ended March 31, 1970 and March 31, 1971, (4) any substantial contingent liabilities or commitments existed at March 31, 1971 or May 3, 1971, (5) there was any material adverse change in the financial position subsequent to December 31, 1970 up to May 3, 1971, any change in the capital stock or long-term debt during that period or any material adverse change in the results of operations during that period as compared with the year ended December 31, 1970, and (6) the accounting information set forth in the Registration Statement under the following captions requires any material adjustment for a fair presentation: "Capitalization", "Management" and "Certain Transactions".

(c) The minute books of the Company were read up to the last recorded minutes of meetings of the Board of Directors which were dated April 27, 1971 and of the Executive Committee which were dated April 28, 1971.

5. The foregoing procedures and inquiries did not bring anything to our attention which gave us reason to believe that:

(a) The unaudited consolidated financial statements at March 31, 1970 and the unaudited statement of operations for the three months ended March 31, 1970 and March 31, 1971, which financial statements are not included in the Registration Statement or Prospectus but are the financial statements from which were derived the unaudited consolidated net sales, consolidated loss before federal income tax benefit, consolidated net loss and net loss per share set forth in the paragraph entitled "First Quarter Results" on page 9 of the Prospectus were not prepared in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the periods reported on by us.

(b) Any material adjustments of such unaudited consolidated financial statements or consolidated statement of operations are required for a fair presentation or

(c) except as set forth in or contemplated by the Registration Statement and Prospectus, during the period December 31, 1970 to May 3, 1971, there has been any material adverse change in the consolidated financial position of the Company, any change in the capital stock (except for the issuance of 2,362 common shares subsequent to March 31, 1971 in connection with stock options and the redemption of 252 preferred shares in connection with sinking fund requirements) or long-term debt of the Company or any material adverse change in the results of operations as compared with the year ended December 31, 1970. The terms financial position and results of operations are used above in their conventional accounting sense; accordingly, they have the same meaning as in our report in the Prospectus and they relate to the financial statements, including the notes thereto, of the business as a whole.

6. During the course of our examination of the consolidated financial statements of the Company included in the Registration Statement and the Prospectus for the year ended December 31, 1970, as described in our report dated February 23, 1971 and as a result of the limited procedures described in this letter, nothing came to our attention which gave us reason to believe that the accounting information set forth in the Registration Statement under the following captions required any material adjustment for a fair presentation: "Capitalization", "Management", "Certain Transactions", and "Consolidated Statement of Operations".

It is understood that this letter is not to be referred to in the Registration Statement or Prospectus, or quoted in whole or in part or referred to in connection with the offering or sale of securities, except for the reference to this letter in the underwriting agreement. This letter may, however, be made available to the several underwriters.

Yours very truly,

Arthur Young & Company

A 3870 AYX 1

I, Fred Pierce, being over 21 years of age, reside with my wife and family at:

2 Windsor Road
Summit, New Jersey 07901
201-277-2813

I first joined Topper Corporation in 1965 as Regional Sales Manager, operating out of Chicago. In January 1966 I was transferred to the central headquarters at Elizabeth, New Jersey and became National Sales Co-ordinator. In September 1966 I became National Sales Manager and around the beginning of 1970 I became Vice President in charge of sales. Mason Benson also became a Vice President at the same time that I did.

At the time I became Vice President Jack Rose was a senior vice president in charge of the financial affairs of the company and Henry Orenstein was president of the company and its chief executive officer. Orenstein was a founder of the company. Jack Rose had come to Topper in 1966.

After he joined Topper in 1966 Jack Rose brought in Julius Schwartz to work as his principal assistant. Rose also hired Sanford Obolsky who served effectively as Rose's number two man after Schwartz. Schwartz grew in stature as time passed and became a vice president in approximately 1971.

The 1971 Spring Program was conceived some time in the early fall of 1970 largely as a result of the tren ndous success which the Dawn Doll was having in 1970. The doll was a very hot item and customers were ordering it in quantities exceeding our ability to supply them. Henry Orenstein conceived of the idea of shipping dolls in containers directly from the Orient to Topper customers in large quantities. Such direct shipments were better for Topper because it did not have to handle the merchandise and better for the customers because it reduced their freight charges.

During November and December 1970 a number of customers ordered merchandise for the coming year on a direct shipment basis. Agreements were made at or about that time with a number of those customers assuring them that merchandise ordered in 1970 could be exchanged in 1971 dollar for dollar for any merchandise in the Topper line.

In December 1970 some of the customers asked for letters to confirm their exchange agreements with Topper. The first such customer with which I had direct contact was

Pensick & Gordon, although I understand that Kresge also asked for similar protection at about the same time. The Kresge account was handled principally by Mason Benson and Henry Orenstein.

When Pensick asked for a letter I inquired of Henry Orenstein whether he would be willing to give such letters and Orenstein said he would but that I should check the text of the letter with Jack Rose before sending it. I did send a draft of a letter to Rose and it went through three or four drafts before Rose was finally satisfied with the language. The language of the exchange letter sent to Pensick & Gordon in December 1970 was ~~for the most part written~~ by Jack Rose, who is both a lawyer and a certified public accountant. The language of the letter is not the kind of language I would customarily use in a letter. The letter was sent to Pensick & Gordon with Rose's approval.

To provide Kresge with a right of exchange, language was written by Jack Rose and inserted into the Kresge orders. The language provided essentially the same dollar for dollar exchange protection as was given to Pensick & Gordon. There were a number of discussions of the Kresge arrangement in which Orenstein, Benson, Rose and I participated.

When the Kresge order, including the language on exchange, was finally agreed to Jack Rose refused to process it through his department with the language granting the dollar for dollar exchange right in it and he returned the order to his staff. I think he sent it to Sandy Obolsky. In a very short time it was processed but without the language referring to the exchange right.

After the Pensick & Gordon exchange letter was given and after the discussions with Kresge, a number of other exchange letters were given to customers. To my knowledge Henry Orenstein either approved all of them personally or in the case of a few small customers they were sent pursuant to a general authorization granted on small accounts. There were a number of discussions in which we all agreed to grant such letters and exchange concessions in which Orenstein, Rose and I participated.

You have shown me a series of exchange letters from the files of Topper. They are numbered. To the best of my knowledge the letters were requested and approved by the following individuals:

#1. Requested by Mason Benson and approved by Henry Orenstein.

#2. Requested by myself and approved by Henry Orenstein.

#3. Requested by myself and approved by Henry Orenstein.

#4. Requested initially by Jerry Gross and then I went to Henry Orenstein for approval and received approval (this is the Pensick & Gordon letter referred to above).

#5. Requested by Mason Benson and approved by Henry Orenstein.

#6. This letter was sent at the direction of Henry Orenstein.

#7. This letter was sent at the request of Henry Orenstein.

#8. This letter was sent at the request of Henry Orenstein and I delivered it personally.

#9. I think this letter was requested by Len Lewis and approved by Henry Orenstein.

#10. I think this letter was requested by Len Lewis and approved by Henry Orenstein.

#11. This letter was requested by myself and approved by Henry Orenstein.

#12. This letter was requested by Fred Rosen and approved by myself pursuant to the general authorization for small accounts given by Henry Orenstein.

#13. This letter was requested by Fred Rosen and approved by myself pursuant to the general authorization for small accounts given by Henry Orenstein.

#14. This letter was requested by Fred Rosen and approved by myself pursuant to the general authorization for small accounts given by Henry Orenstein.

#15. This letter was requested by Alex Hughes and approved by Henry Orenstein.

#16. This letter was requested by Alex Hughes and approved by Henry Orenstein.

#16a. This letter was requested by Alex Hughes and approved by Henry Orenstein.

#17. This letter was requested by myself and approved by Henry Orenstein.

#18. This letter was requested by Len Lewis and approved by myself pursuant to Henry Orenstein's general authorization for small accounts.

#19. This letter was requested by Alex Hughes and approved by Henry Orenstein.

#20. I am not familiar with this letter although Alex Hughes may have written it and cleared it with me. I am just not sure.

As more of these letters were issued they produced more of a problem because we did not want it to be generally known to the company salesmen that they could obtain such letters for customers. And we did not want customer's to know that they could obtain such letters. Henry Orenstein indicated that they should be kept confidential. So we could not have to issue more letters to small customers since letters were an unnecessary burden during a busy Crayon.

To keep the letters confidential I instructed my secretary to keep the carbons in my personal file and in some cases copies were kept in my secretary's chronological file. Edie Spressler and Carmela Yearwood, my secretary and the secretary to Alex Hughes, were instructed not to make extra copies or to send copies to others in the office. Maureen McGregor, secretary to Mason Benson would have known of the letters and I believe that Benson had her keep any such letters he had in personal files as well. The letters were not sent to the general files where orders and contracts with customers were kept. As an added precaution Henry Orenstein, ~~Jack Rose~~ and I called the customers who got the exchange letters in December 1970 and asked them not to disclose the existence of the letters to anyone.

w/Hughes' NH

Early in 1971, while Arthur Young was conducting its audit of the 1970 financial statements, I spoke to two Arthur Young accountants and among other things they inquired whether we had made any guaranteed sales or given any concessions to customers. I told them that to my knowledge we had not made any guaranteed sales, which I take to mean an absolute right of return. As to other concessions I did not report to them the existence of the exchange letters or the oral exchange agreements because I honestly did not believe that they would amount to anything dollar wise in the long-run. As I indicated in my subsequent letter to Al Botte of Arthur Young in January 1972, I do not believe that Arthur Young became aware of the exchange agreements until 1972.

You have shown me some correspondence involving Pensick & Gordon specifically relating to a check sent by Pensick to Topper which Jack Rose told Pensick he could not accept. I recall participating in a telephone conversation with Jack Rose and Jaffe of Pensick & Gordon in which Rose stated that he could not accept the Pensick check because it referred to the deductions from the Pensick account which would have to be made pursuant to our understanding with Pensick that we would protect them. I spoke to Jaffe myself first, but then asked Rose to speak to Jaffe directly because I had the impression that Jaffe was having difficulty understanding my explanation. Both Rose and Jaffe were financial officers and it was apparent that they could communicate better directly. I believe the check was reprocessed and sent through without reference to the deductions which if taken would have reduced the outstanding receivables on Topper's books. My recollection is that while Jaffe was amenable to sending the check in without reference to deductions, he nevertheless wanted the merchandise he was going to return to Topper removed from his warehouse by April 1 so that it would not be subject to a floor tax in California. I believe we accommodated him by the transfer of the merchandise to the Clearfield, Utah warehouse prior to April 1.

Fred Pierce

5/30/73

Witnessed:

Paul G. Mahon

Paul G. Mahon

A 3875 AY E2 ED 3/10/75 ewm

December 22, 1970

PERSONAL & CONFIDENTIAL

Mr. Arthur Euban
American Leisure Products
101 West 31st Street
New York, New York 10001

Dear Arthur:

As per your discussions with Mr. Mason Benson, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own warehouses by this payment date, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCPie

A 3875

December 22, 1970

PERSONAL & CONFIDENTIAL

Mr. Justin Kalish
Yankee Distributors
18718 Borman Avenue
Detroit, Michigan

Dear Justin:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line. This order, as you know, gives you a discount of 10% and an extra 8% which is available on a one-time only basis for this promotion only.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own warehouses by this payment date, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

2.

December 18, 1970

PERSONAL AND CONFIDENTIAL

Mr. Sam Greenberg
New England Trading Corporation
One Mercer Road
Natick, Massachusetts 01760

Dear Sam:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due 1/2 on May 10, 1971, and 1/2 on August 10, 1971. However, if you have not distributed the merchandise to your own warehouses by these payment dates, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCPie

3.

Dear Larry:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar excessive inventory created by the New 1971 Spring order which we have asked you to place for any merchandise in our 1971 Line.

It is also agreed that full T.V. support will be given on all our merchandise in 1971. Should Topper fail to support this merchandise on T.V. as we have supported it in the past, you will be entitled to receive re-shipping instructions on this merchandise.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es
blind: cc: J. Gross (air mail - spec. del.)

4

December 14, 1970

Mr. Tom Patterson
Grandway Stores
East 51 Midland Avenue
Paramus, New Jersey

Dear Tom:

This letter is to confirm that Topper will exchange excessive inventory if created by your 1971 Spring Order dollar for dollar for any merchandise in our 1971 line.

It is further agreed that should Topper fail to support this merchandise with T.V. as we have supported our merchandise in the past, that you will have the right to return this merchandise.

Very truly yours,

TOPPER CORPORATION

Mason Benson

MB

A 3880

RECEIVED BY

SIGN & RETURN TO

Fred C. Pierce

Davis Trailers

December 10, 1970

Mr. Murray Halpern
Tee Vee Toys, Inc.
93 Sevaland Road
Newton, Massachusetts 02159

Dear Murray:

This memo is to confirm that Topper will exchange excessive inventory if created by your 1971 Spring Order dollar for dollar for any merchandise in our 1971 line.

It is further agreed that should Topper fail to support this merchandise with T.V. as we have supported our merchandise in the past, that you will have the right to receive re-shipping instructions.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:os

A 3881.

December 17, 1970

SIGN & RETURN TO

PERSONAL AND CONFIDENTIAL

Mr. William Bernstein
Federal Wholesale Toy Company
14407 Alondra Boulevard
LaMirada, California

Dear Bill:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

If merchandise on this order is not distributed by the May 10, 1971, payment date, we will work with you on additional dating.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

bcc: J. Gross

A 3962

December 16, 1970

December 16, 1970

Mr. Leon Davis
Davis Brothers
111 Midtown Bridge Road
Hackensack, New Jersey

Dear Leon:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the new 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

If merchandise on this order is not distributed by the May 10, 1971, payment date, we will work with you on additional dating.

My very best for a happy holiday season. Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

December 16, 1970

December 16, 1970

PERSONAL AND CONFIDENTIAL

Mr. Ron Tuckman
Tamaron Distributing Company
8485 W. Golf Road
Niles, Illinois 60648

Dear Ron:

In regards to your 1971 Spring Order, the payment terms will be $30,000 due in January with the balance being payable 1/2 on May 10, 1971, and 1/2 on August 10, 1971. If merchandise on this order is not distributed to your stores by the May 10th payment date, we will work with you on additional dating.

If the quantities on this order are excessive, we will exchange this merchandise dollar for dollar for any merchandise in our 1971 Toy Fair line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:ro

December 16, 1970

PERSONAL AND CONFIDENTIAL

Mr. Sy Ziv
Lash Distributors
10700 Tucker Street
Beltsville, Maryland 20705

Dear Sy:

In regards to your 1971 Spring Order, the payment terms will be $30,000 due in January with the balance being payable 1/2 on May 10, 1971, and 1/2 on August 10, 1971. If merchandise on this order is not distributed to your stores by the May 10th payment date, we will work with you on additional dating.

If the quantities on this order are excessive, we will exchange this merchandise dollar for dollar for any merchandise in our 1971 Toy Fair line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es

PERSONAL AND CONFIDENTIAL A 3885

December 16, 1970

Mr. Stanley Silber
Interstate Stores, Inc.
111 Eighth Avenue
New York, New York

Dear Stan:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

with T.Y. [illegible] Very truly yours,

[illegible] the right to [illegible] this [illegible]

TOPPER CORPORATION

Fred C. Pierce
Vice-President - Sales

FCP/c

[illegible]

MS

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. Mickey Abrams
Marand Distributors
240 Roberts Avenue
Philadelphia, Pennsylvania 19144

Dear Mr. Abrams:

As per your conversation with Mr. Fred Reson, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1931 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

By

Fred C. Pierce
Vice President - Sales

FCP:e

December 21, 1970

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. Robert Kouler
American Hardware
Butler, Pennsylvania

Dear Mr. Koulers

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCPic

Sincerely,

Fred C. Pierce

A 3883

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. John Reforgiato
Twin Fair
Waldon & Dick Road
DoPeO, New York

Dear Mr. Reforgiato:

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCPte

A 3883

PERSONAL AND CONFIDENTIAL

December 22, 1970

Mr. Lee Yaffa
Child World, Inc.
43 Littlefield Street
Avon, Massachusetts 02322

Dear Lee:

As per our conversation, this memo is to confirm that we will exchange any excess merchandise from your 1971 Spring order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return this merchandise.

The payment for the merchandise on this order is due May 10th, 1971. However, if you have not distributed the merchandise to your own stores by this payment date we will at that time work with you on re-dating the invoices.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

Cmy
3/20/73

A 3890

PERSONAL AND CONFIDENTIAL

December 16, 1970

Mr. Shepherd Freed
Eastern Toy
333 Liberal Spring Avenue
Pawtucket, Rhode Island

Dear Shep:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:e

Cmy
3/26/73

A 3891

PERSONAL AND CONFIDENTIAL

December 22, 1970

Mr. Shepherd Freed
Eastern Toy
533 Mineral Spring Avenue
Pawtucket, Rhode Island

Dear Shep:

As per our conversation, this letter is to confirm that we will exchange any excess merchandise created by your order # 3100 dated 12-18-70.

The payment for the merchandise on this order is due $20,000.00 January 18th, the balance one-half May 10th, 1971, and one-half September 10th, 1971. However, if you have not distributed the merchandise to your warehouses by these payment dates, we will at that time work with you on re-dating the invoices.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

Copy
3/26/73

A 3892

PERSONAL AND CONFIDENTIAL

November 27, 1970

Mr. Moray Kasch
M. W. Kasch Company
4545 N. Port Washington Road
Milwaukee, Wisconsin 53212

Dear Moray:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP/
oes

17.

A 3893

PERSONAL & CONFIDENTIAL

January 8, 1971

Mr. John Olsen
Thebault Olsen Company
4639 Milwaukee Avenue
Chicago, Illinois 60630

Dear John:

This letter will confirm our conversation regarding your Spring Order. We will exchange any excess merchandise on a dollar for dollar basis for any merchandise in our 1971 line and you will retain the discount you have earned.

While the freight on exchanges must be prepaid, you may deduct the freight incurred.

My best for a Happy New Year.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWHjr

Copy 3/20/73

A 3894

PERSONAL & CONFIDENTIAL

December 28, 1970

Mr. Jerry Forst
Alex Forst & Sons, Inc.
1340 Viele Avenue
Bronx, New York 10474

Dear Jerry:

As per our conversation, this memo is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return this merchandise.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own stores by this payment date, we will at that time work with you on re-dating the invoices.

Very truly yours,

TOFFER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:e

A 3895

December 7, 1970

Mr. John E. Bricker
Ketchum Distributors, Inc.
Forchheimer Division
600 North Cassady Avenue
Columbus, OHIO 43219

Dear Mr. Bricker:

Thank you for your letter of November 28th. Your understanding is completely correct regarding paragraphs 1, 2, 3 & 4. Regarding paragraph 5, as per previous discussions, this letter confirms our agreement to exchange dollar for dollar any excessive inventory created by the new 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

Cmp
3/20/73

A 3896

AH Ex. 3 (f)
3/10 - Pierc

I, Fred Pierce, being over 21 years of age, resi[de] with my wife and family at:

22 Windsor Road
Summit, New Jersey 07901
201-277-2818

Attached to this statement as Exhibit A is a typewritten list entitled "Spring Confirmations" bearing various handwritten initials and numbers reflecting dollar amounts. The handwritten initials contained in the left-hand margin are in my handwriting and represent the following individuals at the Topper Corporation:

FCP Fred C. Pierce	FR Fred Rosen
AWH Alex W. Hughes	MB Mason Benson
HO Henry Orenstein	KT Keith Toucey
NS Nat Shaffir	LL Len Lewis
JJ Jerry Jones	JG Jerry Cross
JJR Jack Rose	

This list was prepared early in January 1971 after the Arthur Young people had sent out confirmations with respect to the Topper 1971 Spring Program. The returns of the confirmations were initially very poor. Because of the poor confirmations Henry Orenstein called a meeting which Jack Rose and I attended and at the meeting Jack Rose explained that we needed to get as many confirmations as possible because Arthur Young would not recognize the Spring Program sales without a significant number of confirmations. It was agreed that various persons from Topper would contact the Spring Program customers to encourage them to send in their confirmations. The attached list, Exhibit A, was discussed prepared by Jack Rose, and the various persons mentioned to by initials on the list were assigned the task of calling the various customers to encourage them to send in their confirmations.

After the list was prepared the persons assigned the task of encouraging the customers made the contacts and immediately we began to hear from many of the customers concerning that of the amount by which confirmations they had in the past authorized and the right they had to exchange merchandise dollar for dollar quantity on written or oral agreement with Topper. Those who raised this point included most, if not all, of those who had received written exchange letters. Upon receiving these inquiries, concerning the [illegible] others that were making the contact, I checked with Julius Schwartz.

He said that the confirmations had no legal significance and that if the customers referred to the exchange rights in their confirmations it would create complications. Schwartz said that for this reason we should advise the customers to send in the confirmations without reference to the exchange agreements. However, he indicated that before doing so I should wait to give him the opportunity to check.

A short while later Schwartz called me and informed me that the confirmations were not legal documents and had no legal standing. Further he said the customers should sign and return the confirmations confirming the amount of goods they had received and the invoice amounts for which they had been billed. The customer was also to be advised that any deductions and/or adjustments were irrelevant as far as the confirmations were concerned.

Following the conversation with Schwartz I conveyed to each of those responsible for contacting accounts Schwartz's instructions and we contacted the various customers again and advised them that they should send in their confirmations without reference to the exchange rights and without any concern that they would lose their right of exchan by sending in their confirmations. As I said to one cus- tomer, he should not be concerned about his exchange r ght because he had a letter from us.

Exhibit B attached to this statement is a list in the handwriting of Sanford Obolsky prepared later in January 1971.

Fred Pierce

Witnessed:

Paul G. Mahon

1/3/73

A 3898

AJ & SA(9/11)
5/10 - Pierce

SPRING CONFIRMATIONS

FCP — Davis Brothers
111 Midtown Bridge Road
Hackensack, New Jersey
Leon Davis ✓ 990

AWH — Globe Stationery & Toy Co.
360 Motor Parkway
Hauppauge, New York 11787
Irv Wolf 411

H.O. — Greenman Brothers, Inc.
105 Price Road
Farmingdale, Long Island, N.Y.
Nat Greenman 135 ✓

NS — Samuel N. Horowitz & Sons
400 S. Second Street
Brooklyn, New York 11211
Jack Horowitz 137 ✓

FCP — Shepher Distributors
2300 Linden Boulevard
Brooklyn, New York 11208
OK Yrs
Irving Monchik 1,057,000

Ster Distributors, Inc.
840 Bloomfield Avenue
Clifton, New Jersey 07012
Joe Lacaro 236,000

JJ — Consolidated Athletic Co., Inc.
2201 West Fort Street
Detroit, Michigan 48216
Abe Lapides ✓ 330,000

AWH — Elmex Corporation
1900 Section Road
Cincinnati, Ohio 45237
Leonard Brown ✓ 355,000

FCP — L & N Globe Company
12345 Woodward Avenue
Detroit, Michigan 48203
OK Yrs
Gary Wexler
Chicago
See Glusek
Rou Saren 120,000

H.O. — Milton D. Myer Company
Bethesay Avenue
Carnegie, Pennsylvania 15106
Dave Myer. 353,000

FR — Pittsburgh Wholesale Distributors
828 Butler Street
Pittsburgh, Pennsylvania 15222
Earl Benner 352,000

SPRING CONFIRMATIONS (continued)

FR	A. Pennock & Sons E. State Street & River Avenue Camden, New Jersey 08105	Joe Stein	5,42. [illegible]
FR	S & H Wholesale Company Bridge Street East Syracuse, New York	Dick Malone	176. [illegible]
FR	Martin Zippel Company Second & Ferry Streets Easton, Pennsylvania	Martin Zippel	250. [illegible]
	Times Square Stores 104-01 Foster Avenue Brooklyn, New York 11236	Jack Kipperman	1,427. [illegible]
MB	American Leisure Products 1220 Broadway - Room 604 New York, New York 10001	Arthur Euban	1,048. [illegible]
NS	Irvington Toy 433 Fabyn Place Irvington, New Jersey	Seymour Prince	207. [illegible]
	E. J. Korvette 450 West 33rd Street New York, New York	Abe Rosenblatt	848. [illegible]
c/o NS	J. M. Fields (Mark Dists.) 450 West 33rd Street 10th Floor New York, New York	Joe Miller	91. [illegible]
H.O.	Vornado 174 Passaic Street Garfield, New Jersey	Bill Getchel	1,077. [illegible]
TT	Cook United (Clober) Rockside Drive Maple Heights, Ohio	Rock Tripodi	435. [illegible]
KT	Eastern Toy 533 Mineral Spring Avenue Pawtucket, Rhode Island	Kenny Adams ✓	5,4[illegible]

SIGNING CONFIRMATIONS (continued)

Globe Wholesale Company
2101 South Carpenter Street
Chicago, Illinois 60608
Ron Soren 1,176,000

M. W. Kosch Company
4545 N. Port Washington Road
Milwaukee, Wisconsin 53212
Jeffery Kosch 376,000

Thebault Olsen Company
4639 Milwaukee Avenue
Chicago, Illinois 60630
John Olsen 125,000

Apex Sales
Cochato Industrial Park
12 Meer Road
Holbrook, Massachusetts 02343
Henry Fox. 303,000

Halco Industries (TV Toys)
96 Old Colony Avenue
East Taunton, Massachusetts 02718
Murray Halperin 470,000
450,000

American Toy Company
7200 Edgewater Drive
Oakland, California 94621
Al Simon 466,000

Blatt Distributing Company
14450 Industry Circle
La Mirada, California 90638
Jerry Blatt 20.75,000

Northern Specialty Sales, Inc.
6635 North Baltimore Street
Portland, Oregon 97203
Lewis O. Buchwach 857,000

Skaggs-Stone, Inc.
727 Kennedy Street
Oakland, California
Bob Tomilson 105,000

Consolidated Athletic
6020 North Lindbergh
St. Louis, Missouri
Stephen Zamler 164,000

L & H Sales Company
4801 Beech Place
Morlo Heights, Maryland
Heinz Gross 43?,000

A 3901

SPRING CONFIRMATIONS (continued)

Federal Wholesale Toy 14407 Alondra Boulevard La Mirada, California		Milt Millan	596,500
Leonard Wasserman 2951 Grant Avenue Philadelphia, Pennsylvania 19114		Leonard Wasserman	1779.00
Interstate Stores 111 8th Avenue New York, New York	4/28/65	Stan Silber	366,500

A 3902

MY EX. SB (8)
3/10 Pierce

A 3903

A 3904

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

- -x

UNITED STATES STEEL AND CARNEGIE PENSION FUND, INC., CONNECTICUT MUTUAL LIFE INSURANCE COMPANY, et al.,

Plaintiffs-Appellants,

-against-

HENRY ORENSTEIN, FIRST NATIONAL CITY BANK, HAYDEN STONE INC., et al.,

Defendants,

-and-

FIRST NATIONAL CITY BANK,

Defendant-Appellee

- -x

AFFIDAVIT OF SERVICE ON PERSON IN CHARGE

STATE OF NEW YORK)
: ss.:
COUNTY OF NEW YORK)

MORRIS ARNSTEIN being duly sworn, says: I am employed in the office of Breed, Abbott & Morgan, 1 Chase Manhattan Plaza, New York, N.Y. 10005, attorneys for the Plaintiffs-Appellants in the above action.

On the 28th day of January, 1977, I served the annexed JOINT APPENDIX ON APPEAL - VOLS. I - V

on the attorney(s) listed below by delivering the same to and leaving the same with the person in charge of said office(s).

Shearman & Sterling, Esqs., Attorneys for Defendant-Appellee
53 Wall Street, New York, New York 10005

Sworn to before me this
28th day of January, 1977

Edna S. Watrous

Morris Arnstein